

STATE OF MARYLAND

A Great Egret with a long, slender neck and a sharp, pointed beak is standing amidst a dense field of tall, green grass. The bird is positioned in the center of the frame, facing right. The background is a soft-focus expanse of similar greenery, creating a natural and serene setting.

COMPREHENSIVE ANNUAL FINANCIAL REPORT *for the fiscal year ended June 30, 2004*

William Donald Schaefer
Comptroller of Maryland



ABOUT THE COVER

The Great Blue Heron, featured on Maryland's *Treasure the Chesapeake* license plate, is among the most recognizable symbols of North America's largest estuary. Funds voluntarily contributed through state income tax filings help support the environmental restoration and education programs of the Chesapeake Bay Trust.

Photo©David Harp, chesapeakephotos.com.

STATE OF MARYLAND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
for the fiscal year ended June 30, 2004

Published
by
General Accounting Division





COMPTROLLER
of MARYLAND

Serving the People

STATE OF MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2004

TABLE OF CONTENTS

DID YOU KNOW?

A Message from Comptroller William Donald Schaefer	iv
Making It Easier To Pay Taxes	v
Windfall from Finding Unclaimed Property	vi
Scofflaws Caught in the Web	vii
The 15 Faces of Taxes	viii
Comptroller Has Many Duties	ix
Ensuring Consumers Get Quality Gasoline	x
Employees Contribute to Charities	xi

INTRODUCTORY SECTION

Selected State Officials	2
State Organization Chart	3
GFOA Certificate of Achievement	4
State Comptroller's Letter of Transmittal	5

FINANCIAL SECTION

Report of Independent Auditors	12
Management's Discussion and Analysis	14

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets	24
Statement of Activities	26

Governmental Funds Financial Statements

Balance Sheet	28
Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets, Net Assets' Balance	29
Statement of Revenues, Expenditures, and Changes in Fund Balances	30
Reconciliation of the Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31

Enterprise Funds Financial Statements

Statement of Net Assets	34
Statement of Revenues, Expenses and Changes in Fund Net Assets	36
Statement of Cash Flows	38

Fiduciary Funds Financial Statements

Statement of Fiduciary Net Assets	40
Statement of Changes in Fiduciary Net Assets	41

Component Units Financial Statements

Combining Statement of Net Assets	44
Combining Statement of Activities	46
Index for Notes to Financial Statements	47
Notes to the Financial Statements	48

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal Funds	82
Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances	84
Required Supplemental Schedule of Funding Progress for Pension and Retirement System	85
Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Pension Plan	86
Notes to Required Supplementary Information	87

COMBINING FINANCIAL STATEMENTS

Non-major Governmental Funds

Combining Balance Sheet	91
Combining Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances	92

Non-major Enterprise Funds

Combining Statement of Net Assets	94
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	95
Combining Statement of Cash Flows	96

Fiduciary Funds

Combining Statement of Fiduciary Net Assets - Pension and Other Employee Benefits Trust Funds	98
Combining Statement of Changes in Plan Net Assets - Pension and Other Employee Benefits Trust Funds	99
Combining Statement of Fiduciary Net Assets - Retirement and Pension System of Maryland	100
Combining Statement of Changes in Plan Net Assets - Retirement and Pension System of Maryland	101
Combining Statement of Fiduciary Net Assets - Agency Funds	102
Combining Statement of Changes in Assets and Liabilities - Agency Funds	103

Non-major Component Units

Combining Statement of Net Assets	105
Combining Statement of Activities.	106

STATISTICAL SECTION

Introduction	108
Net Assets by Component, Primary Government - Last Three Fiscal Years	109
Changes in Net Assets - Last Three Fiscal Years	110
Expenses by Function, Primary Government - Last Three Fiscal Years	111
Revenues, Primary Government - Last Three Fiscal Years	112
Fund Balances, Governmental Funds - Last Ten Fiscal Years	113
Changes in Fund Balances, Governmental Funds - Last Ten Fiscal Years	114
Personal Income Tax Filers by Subdivision Tax Year Ended December 31, 2003	116
State Personal Income Tax and Sales and Use Tax Rates - Last Ten Calendar Years	117
Personal Income Tax Filers and Liability by Income Level - Last Six Tax Years Ended December 31	118
Sales and Use Tax Receipts by Principal Type of Business- Last Ten Fiscal Years	119
Schedule of Ratio of Outstanding Debt by Type - Last Three Fiscal Years	120

Ratio of General Bonded Debt To Actual Value and General Bonded Debt	
Per Capita - Last Ten Fiscal Years	121
Legal Debt Margin Information - Last Ten Fiscal Years	122
Schedule of Taxes Pledged to Consolidated Transportation Bonds and Net Revenues as	
Defined for Purposes of Consolidated Transportation Bonds Coverage Tests (1) -	
Last Ten Fiscal Years	123
Ratio of Pledged Assets to Revenue Bonds, Community Development Administration -	
Last Ten Fiscal Years	124
Schedule of Demographic Statistics - Last Ten Years	125
Schedule of Employment by Sector - Prior Year and Nine Years Prior	126
Maryland's Ten Largest Private Employers - Calendar Year 2003	127
State Employees by Function/Program - June 30, 2004	128
Schedule of Miscellaneous Statistics - June 30, 2004	129
 FINANCIAL SCHEDULES REQUIRED BY LAW	
Schedule of Estimated and Actual Revenues By Source-Budgetary Basis	132
Schedule of Budget and Actual Expenditures and Encumbrances by Major Function -	
Budgetary Basis	133
Schedule of Changes in Fund Equities - Budgetary Basis	134
Schedule of Funds Transferred to Political Subdivisions	135
Schedule of Taxes Receivable from Collectors of State Property Taxes	136
Schedule of Estimated Revenues - Budgetary Basis	137
Schedule of General, Special, Federal, Current Unrestricted and Current Restricted	
Fund Appropriations - Budgetary Basis	138



Did you know?

This section of Maryland's 2004 Comprehensive Annual Financial Report is devoted to the lesser known duties and activities of the Comptroller of Maryland. We're calling it "Did you know?"

For example, *did you know*:

- After collecting taxes, our second most important job is to make paying them easier? We outline some of the ways in the following pages.
- We also make tax paying more equitable through an extensive compliance and regulatory program that works to make sure that everyone pays his or her fair share? This includes one rather creative way to embarrass scofflaws into paying.
- We have a very aggressive field inspection program to ensure consistent and equitable payment of sales and use taxes and to reduce the illegal importation of cigarettes and alcohol from other states without paying tax — to level the playing field for our local businesses?
- Every year, people discover assets they did not know they had because of an aggressive marketing program done by the Comptroller's office?
- The Comptroller has several other significant duties besides collecting taxes, such as estimating revenues?
- Also, did you know that hundreds of employees from this agency do extensive charity work — both as part of the agency's outreach program and as part of their own personal volunteer commitments?

These are just some of the lesser-known activities that we're involved in which are described in more detail in the following pages.

William Donald Schaefer
Comptroller of Maryland

Did you know?

In addition to collecting taxes, the Comptroller administers programs to make it *easier* for taxpayers to file.



Here are just a few of the ways that the agency makes paying taxes less of a burden:

- More than one-third of personal tax returns – almost one million — were filed electronically in 2004.
- The number of taxpayers age 65 and older who are filing electronically has increased at twice the rate of other taxpayers filing electronically over the last year.
- Marylanders can file their taxes on line for free by using iFile on www.marylandtaxes.com.
- Businesses can take advantage of a free, online service called bFile to file sales and withholding returns.
- Taxpayers can pay on line by credit card through Official Payment Corporation's Web site, www.officialpayments.com or by calling 1-800-2PAYTAX.
- Filing electronically using direct deposit to a bank account results in a refund within 48 hours of receipt.
- People who have overdue taxes can create a payment plan online.
- The Comptroller's Web site has an online calculator to help determine how much estimated tax is owed.

During tax filing season, taxpayer service staff are available by phone on toll free lines until 9:00 p.m.

The cost to process a paper return is \$1.95, compared with \$.38 to process an electronic return.

Over the last year, electronic filing is up 12%, direct deposit refunds are up 11%, direct debit payments are up 37% and donations to the Chesapeake Bay and Endangered Species Fund income tax check off are up 8%.

Did you know?

Thousands of people receive a windfall each year, thanks to the efforts of the Comptroller to locate the owners of millions of dollars in unclaimed funds and other property.

The unclaimed property law went into effect on June 1, 1966.

The oldest unclaimed item in the Comptroller's Office dates to June 17, 1967.

The agency uses an appraiser to determine the value of unclaimed items before they are auctioned to the public.

A partial listing of unclaimed property may be found on www.marylandtaxes.com.

Financial institutions, utilities, insurance companies and other corporations are required to report to the Comptroller's Office any bank accounts, security deposits, wages and insurance benefits and the contents of safe deposit boxes that are unclaimed after three years following attempts by the company to contact the owners. The Comptroller takes custody of the accounts until the owners or their legitimate heirs come forward to claim the assets. There is no statute of limitations.

The Comptroller's Office works to locate the rightful owners through advertising in newspapers, exhibits at public events like the Maryland State Fair and mailings based on updated address data from Internal Revenue Service records and state vehicle registration files.

During fiscal year 2004, the Comptroller's Office returned \$18.2 million in unclaimed assets to legal owners, exceeding the previous year's distribution by 11 percent. The agency



maintains records on 503,000 accounts worth more than \$217 million, dating from 1966.

Unclaimed items in the Comptroller's care over the years have ranged from a sock stashed inside a safe deposit box to \$200,000 in proceeds from a real estate transaction. Many involve unclaimed insurance benefits, overlooked paychecks and even savings accounts created by college students, only to be forgotten.

Other notable discoveries include a letter written by Civil War General Stonewall Jackson, a Nazi military dagger, a brass opium pipe and valuable coin collections. About once a year, the agency liquidates the most valuable items at public auctions.

Did you know?

Maryland's largest tax delinquents have a page all to themselves on the Comptroller's Web site as part of the agency's effort to prod scofflaws into paying.



During fiscal year 2004, the Comptroller's Office posted on the agency's Caught in the Web Internet page a list of 50 individuals and 50 businesses that owed more than \$12.9 million in overdue taxes, penalties and interest to the state of Maryland.

Despite repeated requests for payment, none of the individuals or businesses had responded or tried to create payment plans with the Comptroller's Office. These liabilities are considered part of public record, since tax liens have already been filed in each case.

The list includes the owners or responsible officers of businesses who have some

of the largest Maryland tax liabilities for sales and use tax, employer withholding and corporate income taxes as well as individuals who owe personal income taxes. None of the tax accounts listed are in bankruptcy.

Aside from filing liens, the Comptroller's Office also prompts payment from tax delinquents by attaching bank accounts and assets, garnishing wages, revoking sales tax licenses, holding up renewal of state issued licenses, capturing Internal Revenue Service refunds and deferring state payments if the taxpayer does business with the state.

Since June 2000, when Comptroller Schaefer launched Maryland's Caught in the Web program, this agency has collected \$12.1 million from 298 of the state's largest tax delinquents who have either paid in full or are currently making payments.

The agency conducted 90 out-of-state tax audits last year, resulting in taxes assessed of \$13.4 million.

A new program allows people who owe taxes to create payment plans on line.

Cigarette smuggling arrests increased 46% in FY 2004 over the previous year.

It's illegal for residents to bring more than two packs of cigarettes or one quart of alcohol purchased in another state into Maryland.

Did you know?

The Comptroller of Maryland collects 15 different taxes, which account for almost half of all revenue that comes into the state.

The tire recycling fee accounts for \$2.2 million of revenue collected by the state.

Corporate income tax brings in \$447.5 million to Maryland's coffers, 3.4% of revenues collected.

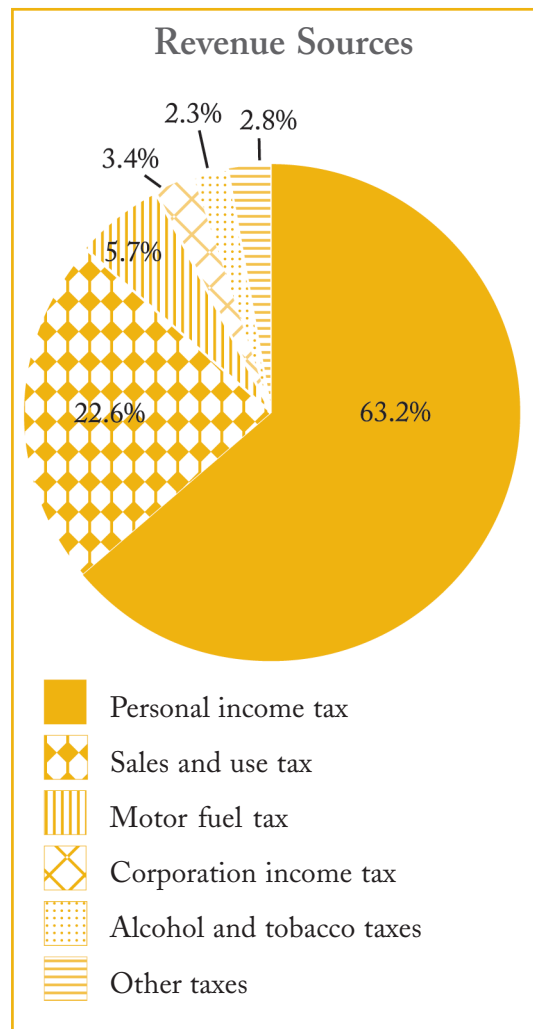
At \$746.2 million, the motor fuel tax is the third largest source of revenue collected by the Comptroller.

In fiscal 2004, total state revenue was \$22.9 billion, of which 43 percent, or \$9.8 billion, was from taxes collected by the Comptroller's Office.

Among the oldest taxes collected by the agency are those on personal and corporate income which were enacted in 1937. By far, the largest revenue source under the authority of the Comptroller is personal income tax which amounted to 63.2 percent of all revenues collected by the Comptroller. Corporate income taxes for fiscal year 2004 represented 3.4 percent.

The Comptroller's second largest revenue source is the sales and use tax at 22.6 percent of the total collected. Among those exempt from collecting sales tax are religious organizations. Other organizations determined by the Internal Revenue Service as 501(c)(3) do not pay sales taxes on purchases but are required to remit such taxes on items sold by them.

The rate of Maryland's sales tax has been increased three times since it was enacted and set at 2 percent in 1947. In 1959, it was increased to 3 percent, and 10 years later, to 4 percent. The most



recent increase was to 5 percent in 1977.

Though Maryland's tobacco tax rate is among the highest in the nation--only 11 states are higher--that source, combined with alcohol taxes, last year provided only 2.3 percent of the revenues collected by the Comptroller.

Did you know?

In addition to responsibilities relating to revenue, the Comptroller has several other official roles.



The Comptroller serves on a three-person board which estimates the state's revenues. The Bureau of Revenue Estimates is a division of the Comptroller's Office and is responsible for analyzing economic conditions and monitoring tax revenues. Its projections are critical to helping state and local governments plan their budgets. The Board of Revenue Estimates also includes the state Treasurer and state budget secretary. Estimates are released each year in March, September and December. These reports contain revenue and economic forecasts for the upcoming fiscal year. A panel of business leaders, economists and corporate financial officers representing different state industries meets once a year to advise the Comptroller.

As a member of the Board of Public Works, the Comptroller votes on all state contracts and leases valued at \$200,000 or more.

The Governor, Treasurer and Comptroller comprise the Board of Public Works, a function unique among American states, which also manages the sale of the state's general obligation bonds. School construction, highway improvements and property purchases are among the items voted on by the board.

The Comptroller is a trustee of the Maryland State Retirement and Pension System. The system administers 12 death, disability and retirement plans for 327,652 active and former state and local government employees. The system's board of trustees, which the Comptroller currently chairs, directs the management of a multi-billion dollar investment portfolio; adopts the actuarial assumptions necessary to fund the system; approves all disability retirements and adopts rules, regulations, policies and procedures necessary to administer the plans.

The office of Comptroller of Maryland was created in 1851 in response to turbulent economic times to be elected by the people and to provide a check on the authority of the state Treasurer.

Maryland is one of only seven states with a Triple-A bond rating--the highest possible--which it has held for more than 60 years.

William Donald Schaefer has served as chair of the pension system since 2002.

Between 2003 and 2004, the national standing of Maryland's pension system has shown significant improvement, climbing to the 75th from the 46th percentile.

Did you know?

When Marylanders pump gasoline into their cars, they can trust that it's of the highest quality.

Where you live in Maryland determines whether you use conventional or reformulated gasoline.

Reformulated gasoline is a cleaner burning fuel mandated by the EPA for use in areas designated as having poor air quality.

Gasoline stations in the more urban areas of the state, including Queen Anne's and Kent counties, must sell reformulated gasoline.

Comptroller William Donald Schaefer's enforcement agents inspect retail fuel stations and suppliers regularly to help motorists avoid disrupted engine performance and the costly repairs substandard fuel can cause.

In fiscal year 2004, agents inspected 4,380 retail fuel stations and suppliers and 838.3 million gallons of gasoline. They found more than 750,000 gallons of substandard gasoline, removed it from the market and issued "stop sale" notices to affected station owners until the problem was resolved.

The findings for fiscal year 2004 represent a 0.1 percent failure rate, which is a significant improvement over past years – especially in the 1970s when the failure rate was 9.6 percent, before the



agency's testing lab opened in 1974.

At retail stations, inspectors draw and pay for each grade of gasoline and send it to be tested at the Comptroller's petroleum testing lab in Jessup. However, sometimes inspectors conduct tests at the sale site, testing for water and sediment in storage tanks and screening for octane level.

Did you know?

Comptroller's office employees gave \$95,583 to charities across the state last year. In addition, thousands of pounds of food, clothes and school and household supplies were also donated by workers to area citizens in need.



When William Donald Schaefer became Comptroller, he shared his philosophy of “helping people,” with employees, who enthusiastically adopted this unique approach to government services. Workers are encouraged to lend a hand in making their communities better. They can participate in volunteer activities for up to eight hours a month during work time, a policy which has

contributed to a positive workplace climate, while improving employee satisfaction and productivity.

Besides making donations, employees prepare and serve food to the homeless, plant flower gardens at senior centers, mentor young orphans, clean highways and prepare holiday gifts for needy families. Additionally, employees volunteer at area schools and at Boys and Girls Clubs.

All the funds donated to these charities are raised by employees through such efforts as pizza kit sales, golf outings, numerous bake sales and creating and marketing a cookbook. Each year, the agency reviews its commitments and considers expanding assistance to other charities.

Comptroller employees sent \$75,222 to the Maryland Charity Campaign, representing 87% participation and the highest agency involvement in Maryland state government last year.

The next highest agency participation was 25 percentage points lower than the Comptroller's Office.

Comptroller employees donated \$20,000 to another 25 charities in the state last year.



INTRODUCTORY SECTION

State of Maryland Selected State Officials

EXECUTIVE

Robert L. Ehrlich, Jr.

Governor

Michael S. Steele

Lieutenant Governor

William Donald Schaefer

Comptroller

J. Joseph Curran, Jr.

Attorney General

Nancy Kopp

Treasurer

JUDICIAL

Robert M. Bell

Chief Judge

Court of Appeals of Maryland

LEGISLATIVE

Thomas V. Mike Miller, Jr.

President of the Senate

Michael E. Busch

Speaker of the House of Delegates

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graph TD
    VM[Voters of Maryland] --> L[Legislative]
    VM --> E[Executive]
    VM --> J[Judicial]
    
    L --> LA[General Assembly  
Legislative Policy Committee  
Statutory Committees  
Joint Committees & Task Forces  
Senate  
Standing Committees  
House of Delegates  
Standing Committees  
Dept. of Legislative Services]
    
    E --> EG[Governor  
Lieutenant Governor  
Comptroller  
Board of Public Works  
Attorney General  
Secretary of State]
    
    J --> JA[Court of Appeals  
Court of Special Appeals  
Circuit Courts  
District Court of Maryland  
Maryland Judicial Conference  
Administrative Office of the Courts  
State Board of Law Examiners  
State Law Library  
State Reporter]
    
    E --> PED[Principal Executive Departments]
    
    PED --> A[Aging]
    PED --> B[Budget & Management]
    PED --> AG[Agriculture]
    PED --> BE[Business & Economic Development]
    PED --> D[Disabilities]
    PED --> E1[Education]
    PED --> EN[Environment]
    PED --> H[Health & Mental Hygiene]
    PED --> HC[Housing & Community Development]
    PED --> HR[Human Resources]
    PED --> JUV[Juvenile Services]
    PED --> LRS[Labor, Licensing, & Regulation]
    PED --> NR[Natural Resources]
    PED --> P[Planning]
    PED --> PCS[Public Safety & Correctional Services]
    PED --> SP[State Police]
    PED --> T[Transportation]
    PED --> VA[Veterans Affairs]
    PED --> EC[Executive Commissions]
    
    PED --> IA[Independent Agencies]
  
```

The organizational chart of the Government of Maryland is structured as follows:

- Voters of Maryland**
 - Legislative**
 - General Assembly
 - Legislative Policy Committee
 - Statutory Committees
 - Joint Committees & Task Forces
 - Senate
 - Standing Committees
 - House of Delegates
 - Standing Committees
 - Dept. of Legislative Services
 - Executive**
 - Governor
 - Lieutenant Governor
 - Comptroller
 - Board of Public Works
 - Attorney General
 - Secretary of State
 - Judicial**
 - Court of Appeals
 - Court of Special Appeals
 - Circuit Courts
 - District Court of Maryland
 - Maryland Judicial Conference
 - Administrative Office of the Courts
 - State Board of Law Examiners
 - State Law Library
 - State Reporter
 - Principal Executive Departments**
 - Aging
 - Budget & Management
 - Agriculture
 - Business & Economic Development
 - Disabilities
 - Education
 - Environment
 - Health & Mental Hygiene
 - Housing & Community Development
 - Human Resources
 - Juvenile Services
 - Labor, Licensing, & Regulation
 - Natural Resources
 - Planning
 - Public Safety & Correctional Services
 - State Police
 - Transportation
 - Veterans Affairs
 - Executive Commissions
 - Independent Agencies

Certificate of Achievement for Excellence in Financial Reporting

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State of Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



William Donald Schaefer
Comptroller

John D. Kenney
Director
General Accounting Division

Honorable Members of the General
Assembly and the Governor,
State of Maryland

December 3, 2004

The Comprehensive Annual Financial Report (CAFR) of the State of Maryland, for the fiscal year ended June 30, 2004, submitted herewith, includes financial statements of the State of Maryland as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller.

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of Maryland's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits are usually not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's basic financial statements by a firm of independent auditors selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Ernst & Young LLP, has been included in the financial section of this report. In addition, Ernst & Young LLP performs an audit to meet the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and such information is contained in another reporting package.

The State has issued guidelines to its agencies for establishing effective internal controls. As a recipient of federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines.

The accompanying financial statements include all funds of the State of Maryland (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable. The various colleges and universities and the Maryland Stadium Authority are reported as major discretely presented component units. The Maryland Industrial Development Financing Authority, the Maryland Food Center Authority, the Maryland Environmental Service and the Maryland Prepaid College Trust are combined and presented as non-major component units.

Accounting principles generally accepted in the United States require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Management's Discussion and Analysis can be found immediately following the report of the independent auditors.

BACKGROUND INFORMATION ON THE STATE

Maryland ratified the United States Constitution on April 28, 1788. Its capital is Annapolis, where the principal activities of state government are centered. The State's 2003 population was 5.5 million, and Maryland ranks 42nd among the states in land area with 9,774 square miles. The largest city is Baltimore with a 2003 population of 629,000 (2.6 million for the primary metropolitan statistical area). Its employment is based largely in services, trade and government. These sectors, along with finance, insurance and real estate are the largest contributors to the gross state product. The State has a bicameral legislature, the General Assembly, composed of the Senate with 47 members and the House of Delegates with 141 members. The General Assembly meets annually for a 90-day session beginning on the second Wednesday in January.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations. Maryland maintains its accounts to conform with the legally mandated budget and also to comply with generally accepted accounting principles. Financial control is generally exercised under the budgetary system.

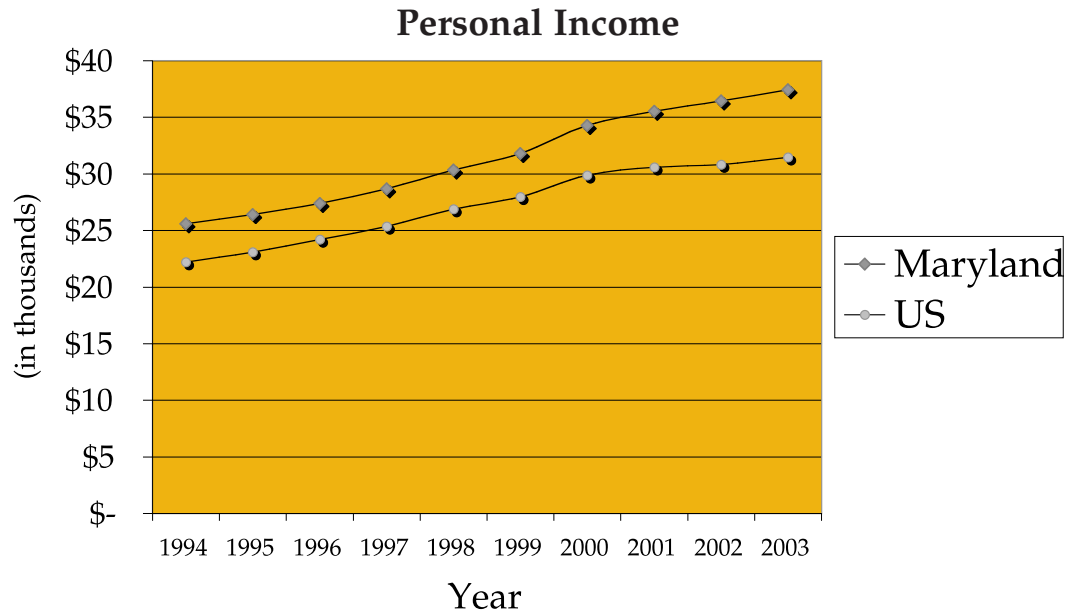
There is a Spending Affordability Committee which consists of certain designated officers of the General Assembly and other members as may be appointed by the President of the Senate and the Speaker of the House of Delegates. Each year the Committee must submit a report to the General Assembly's Legislative Policy Committee and to the Governor recommending the level of State spending, the level of new debt authorization, the level of State personnel, and the use of any anticipated surplus funds.

Also, the General Assembly created a Capital Debt Affordability Committee, the members of which are the Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and one person appointed by the Governor. This Committee is required to submit to the Governor by September 10 of each year an estimate of the maximum amount of new general obligation debt that prudently may be authorized. The Committee's recent reports encompass all tax supported debt, including in addition to general obligation debt, bonds issued by the Department of Transportation, bonds issued by the Maryland Stadium Authority and capital lease transactions. Although the Committee's responsibilities are advisory only, the Governor is required to give due consideration to the Committee's finding in preparing a preliminary allocation of new general obligation debt authorizations for the next ensuing fiscal year.

INFORMATION ON THE STATE'S ECONOMIC CONDITION

By most measures, Maryland's economy has outperformed the national economy over the past five years. This year has been no exception, and the trend looks set to continue in the near future. Assisted by a strong federal government presence and relative lack of manufacturing, employment in the State did not decline during or after the recent recession. Growth of 0.4% and 0.2% in 2002 and 2003 was modest at best, though respectable when compared to national declines of 1.1% and 0.3%. While the State's unemployment rate has risen from the unprecedented low of 3.5% achieved in 1999 by a full percentage point to 4.5% in 2003, the national unemployment rate has risen from 4.2% to 6.0% over the same period. Personal income, wage and salary income, sales, and prices of existing single-family homes have all grown faster from 1998 to 2003 in Maryland than nationwide, while bankruptcies and the number of unemployed have grown slower.

The following chart shows the State's personal income growth over the previous ten years compared with the national average



Source: U.S Department of Commerce, Bureau of Economic Analysis

Maryland's economy has accelerated throughout 2004, with year-over-year employment growth stronger in every month than the month before, except for August (the latest data available). In fact, employment in the State has accelerated in 14 of the past 18 months, stretching back to March 2003. Personal income growth has accelerated for five consecutive quarters through the second quarter of 2004, while wage and salary income has accelerated in four of the five quarters, slowing to a still respectable 5.6% growth in the second quarter of this year.

At 1.3% through most of 2004, Maryland has the fifteenth fastest rate of employment growth; ten of the faster-growing states are in the West—generally states which are much more natural-resources oriented than is Maryland. The State's recovery has been broad-based, with seven of ten major industries showing accelerating growth in 2004. Currently, employment in information services and construction are booming, with 8.5% and 5.2% year-over-year growth in August; only manufacturing and government employment are still shrinking, both at a 0.8% rate, although manufacturing is showing a marked improvement from 6.9% and 5.8% declines in 2002 and 2003.

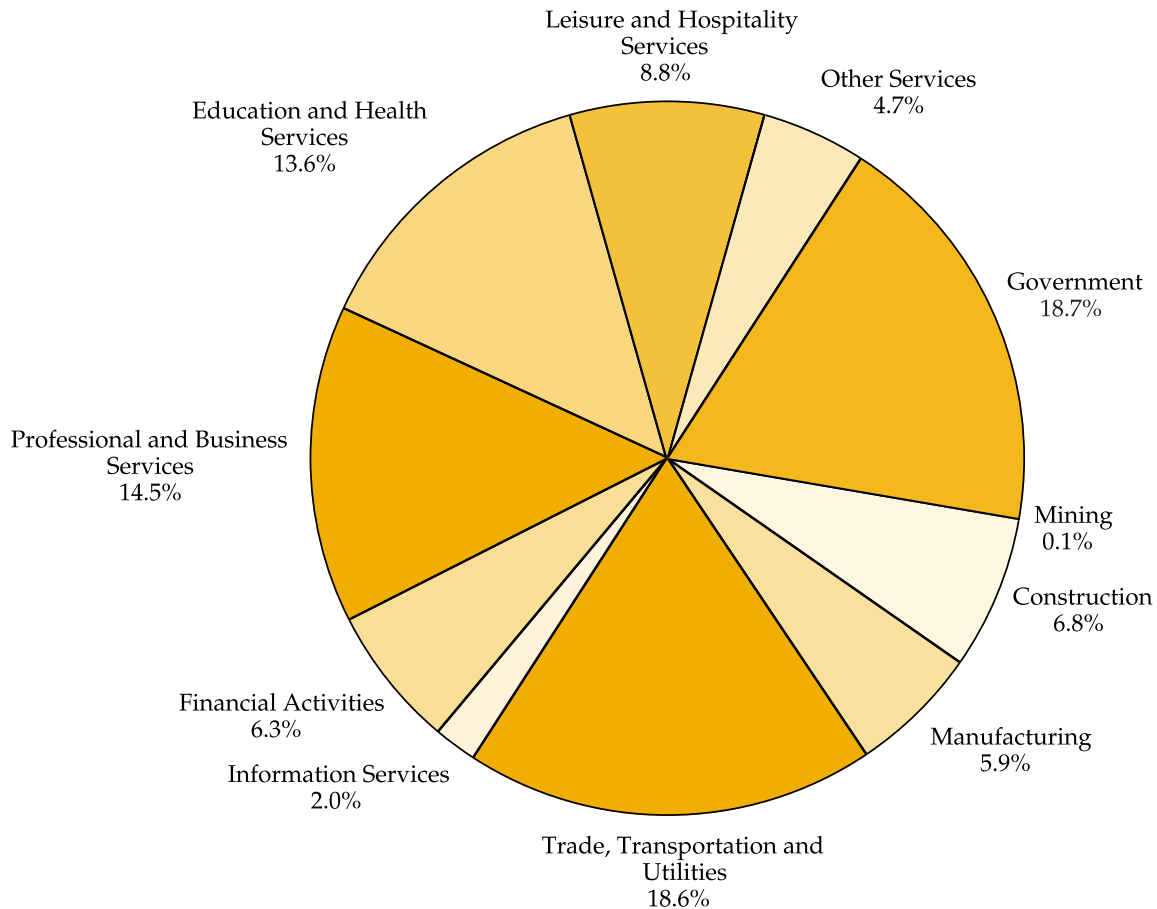
Maryland's economy is set to improve over the coming eighteen months. Forecasts are calling for a generally-improving national economy; one of the few major risks to the national outlook, that of sustained high oil prices, is likely to have a disproportionately light impact on the State. There currently appear to be no particular risks specific to Maryland's economy on the horizon, save the unquantifiable possibility of another terrorist attack. While the economy won't show as much improvement in the foreseeable future as it did in the past year, it will show sustained strong performance and will continue to outgrow the national economy.

The State's budget situation has been much worse and much longer than the federal government's. Several years of hundreds of millions of dollars of budget actions simply to balance the budget have taken their toll on State government employment. A hiring freeze was put into place in late 2001; while it was relaxed in mid-2003, it still exists. The number of authorized positions in the State budget for fiscal year 2005 is slightly lower than that which existed for fiscal year 2001. As the fiscal situation of the State will remain very tight until at least fiscal year 2009, any growth in State employment will be marginal at best.

Maryland's economy is well-positioned for the next few years. Total employment is expected to grow by over 1.5% in 2004, led by the resurgent professional and business services sector, the very consistent education and health services sector, and the construction sector; the end of steep declines in manufacturing and informa-

tion services will also help. In 2005, as growth in construction tapers off, solid economic growth will lead to gains in trade and transportation employment, and further acceleration in the professional and business services industry. Total employment growth will approach 2% for both 2005 and 2006; while well below the growth rates achieved in the late 1990s, growth at this rate represents strong, sustainable growth for Maryland's economy.

Employment By Sector



Source: Bureau of Revenue Estimates of the Maryland State Comptroller's Office, June 30, 2004.

MAJOR BUDGETARY INITIATIVES

Continuing reductions in the rate of growth of ongoing revenues and large expenditure increases in some areas have combined to create a projected budget deficit in the operating budget for the year ending June 30, 2005. Funding for primary and secondary education grew by a record \$326 million (10%) over last year's funding total. The increase results from the full funding of this year's increase for the Bridge to Excellence in Public Schools Act. Medicaid is the second largest increase, \$302 million (8%) more than the fiscal year 2004 appropriation in total funds. Enrollment in Maryland's standard Medicaid program will increase by approximately 4.5% in 2005. In addition, the 2005 budget includes funds to more than triple the number of elderly Marylanders covered by the new Pharmacy Discount Program in 2004. Eligible Medicare members may purchase prescription drugs at 65% of the discounted Medicaid price.

Some new revenue sources were identified for budget year 2005 to close the projected deficit, although no general tax increases were adopted. The largest source of funds for deficit reduction will come from one-time fund balance transfers.

In addition, the 2005 capital budget includes \$364 million to construct new and improve existing facilities for public and higher education; \$226 million to upgrade water and wastewater infrastructure, preserve agricultural and open space land, restore the Chesapeake Bay ecosystem, and improve hospitals and community health centers; and \$75 million to build and improve public safety facilities, primarily State and local correctional facilities. The rate for property taxes, which are used exclusively for the payment of debt service, was raised to 13.2 cents per \$100 of assessed value on real property in fiscal year 2004 and maintained for fiscal year 2005, up from 8.4 cents in fiscal year 2003.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 23 consecutive years (fiscal years ended 1980-2003). We believe that our current comprehensive annual financial report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Sincerely,

A handwritten signature in black ink, reading "William Donald Schaefer". The signature is fluid and cursive, with the first name "William" being the most prominent.

William Donald Schaefer,
Comptroller of Maryland



FINANCIAL SECTION

Report of Independent Auditors

The Honorable William D. Schaefer
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of (1) Economic Development – Loan Programs; (2) Maryland State Lottery Agency; (3) Maryland Transportation Authority; (4) Economic Development – Insurance Programs; (5) State Use Industries; (6) certain foundations included in the higher education component unit (7) Maryland Environmental Service; (8) Maryland Industrial Development Financing Authority; (9) Maryland Food Center Authority; (10) Maryland Local Government Investment Pool, (11) State Retirement and Pension System of Maryland, (12) Maryland Transit Administration Pension Plan and (13) Deferred Compensation Plan which represent the percentages of the assets, net assets and revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit		
	Total Assets	Total Net Assets	Total Revenues or Additions
Business-type activities:			
Economic Development – Loan Programs	52.81	38.46	8.59
Maryland State Lottery Agency	3.97	.28	53.67
Maryland Transportation Authority	31.69	38.94	12.54
Economic Development – Insurance Programs	.06	2.11	.21
State Use Industries	.22	.61	1.37
	88.74	80.40	76.38
Major Funds:			
Economic Development – Loan Programs	100	100	100
Maryland State Lottery Agency	100	100	100
Maryland Transportation Authority	100	100	100
Aggregate Discretely Presented Component Units:			
Higher Education	11.17	17.50	5.40
Maryland Environmental Service	1.21	.19	1.93
Maryland Industrial Development Financing Authority	.58	.82	.04
Maryland Food Center Authority	.34	.53	.11
	13.30	19.04	7.48
Aggregate Remaining Fund Information:			
Economic Development – Insurance Programs	.27	.25	.03
State Use Industries	.07	.07	.23
Maryland Local Government Investment Pool	4.28	4.84	29.77
State Retirement and Pension System of Maryland	85.99	89.03	32.92
Maryland Transit Administration Pension Plan	.23	.25	.21
Deferred Compensation Plan	4.69	5.30	2.80
	95.53	99.74	65.96

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above-mentioned funds and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in Note 1, the State has implemented GASB Statement No 39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, GASB Statement No. 44, Economic Condition Reporting: The Statistical Section and Technical Bulletin 2004-1 Tobacco Settlement Recognition and Financial Reporting Entity Issues, and restated certain capital asset balances as of July 1, 2003.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The management's discussion and analysis, required supplemental schedules of funding progress for the Pension and Retirement System and for the Maryland Transit Administration Pension Plan, and the respective budgetary comparison for the budgetary general, special and federal funds as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maryland's basic financial statements. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report and the financial schedules required by law have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ernst & Young LLP

December 3, 2004

STATE OF MARYLAND

Management's Discussion and Analysis

Management of the State of Maryland provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2004. Please read it in conjunction with the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report and the State's financial statements which follow this section.

Financial Highlights

Government-wide

- Maryland reported net assets of \$15.1 billion and \$14.7 billion for fiscal years 2004 and 2003, respectively.
- Of this amount, a deficit of \$319 million was reported as total unrestricted net assets, which includes a \$1.5 billion deficit balance in governmental activities and \$1.2 billion balance in business-type activities.
- The State's total net assets increased by \$278 million as a result of this year's operations. The net assets for governmental activities increased by \$152 million (1.4%) while net assets of business-type activities increased by \$126 million (3.2%). The restatement of beginning fund balance from the recognition of the receivable and revenues related to tobacco sales was \$74 million.
- The State's governmental activities had total revenues of \$20.1 billion, total expenses of \$20.4 billion and net transfers from business-type activities of \$436 million for a net increase of \$152 million.
- Business-type activities had total expenditures of \$2 billion, program revenues of \$2.6 billion, general revenues of \$6 million, and transfers out of \$436 million for a net increase in net assets of \$126 million.
- Total State revenues were \$22.7 billion, while total costs for all programs were \$22.4 billion.

Fund Level

- Governmental funds reported a combined fund balance of \$1.9 billion, an increase of \$182 million (10%) from the prior year.
- The General Fund reported an unreserved, designated fund balance of \$127 million compared to an unreserved fund balance deficit of \$110 million last year, an increase of \$237 million. The total unreserved fund balance deficit in the governmental funds was \$25 million, a smaller deficit than the unreserved fund balance deficit of \$107 million in the prior year.
- Governmental funds reported a total reserved fund balance of \$2 billion, of which, \$513 million was in the "State Reserve Fund" and available for future needs.

Long-term Debt

- Total bonds and obligations under long term leases at year end were \$8.9 billion, a net increase of \$199 million (2.3%) over the prior year.
- \$500 million General Obligation Bonds were issued during the year. In addition, the Department of Transportation issued \$396 million in bonds during the year, \$76 million of which were refunding bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements distinguish between three types of state programs or activities. These three types of activities are as follows.

Governmental Activities - The activities in this section are typically supported by taxes and intergovernmental revenues, i.e., federal grants. Most services normally associated with State government fall into this category, including the Legislature, Judiciary, and the general operations of the Executive Department.

Business-Type Activities - These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and State Use Industries, a program which constructs office furnishings utilizing the prisons' inmate population.

Discretely Presented Component Units - The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College and certain affiliated foundations. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the Maryland Prepaid College Trust.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 29 and 31) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual to accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as deferred revenue on the governmental fund statements.
- Other assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlays result in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 24-27 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, enterprise, and fiduciary. Each of these categories uses a different accounting approach.

Governmental funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 28-31 of this report.

Enterprise funds – Enterprise funds are used to show activities that operate similar to activities of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements, because they both utilize accrual accounting; the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major enterprise funds. These funds are: Economic Development - Loan Programs, the Unemployment Insurance Program, the Lottery Agency, and the Transportation Authority. Data for the non-major enterprise funds, Economic Development - Insurance Programs and State Use Industries, are combined into a single aggregated presentation. Individual fund data for these non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic enterprise funds financial statements can be found on pages 34-39 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and Agency Funds. The Pension and Other Employee Benefits Trust Funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity of an external investment pool. Agency funds account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 40-41 of this report.

Combining Financial Statements, Component Units – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and Statement of Activities. Combining Statement of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 44-46 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 48-80 of this report.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the budgetary general, special revenue and federal funds, along with a reconciliation of the statutory and Generally Accepted Accounting Principles (GAAP) fund balances at fiscal year end. This report also presents certain required supplementary information concerning the State's progress in funding its obligation to provide pension benefits to its employees and includes a footnote concerning budgeting and budgetary control. Required supplementary information immediately follows the notes to the financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with non-major governmental, enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The State's combined net assets (government and business-type activities) totaled \$15.1 billion at the end of 2004, compared to \$14.7 billion at the end of the previous year, an increase of \$352 million or 2% during the current fiscal year. This increase reflects the restatement of beginning fund balance of \$74 million in addition to the improvement in revenues, mainly the various types of taxes, while the growth in expenses was contained.

Net Assets as of June 30, 2004 (Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 6,431	\$ 5,755	\$5,793	\$6,037	\$12,224	\$11,792
Capital assets	16,059	15,358	1,471	1,428	17,530	16,786
Total assets	22,490	21,113	7,264	7,465	29,754	28,578
Long-term liabilities	6,496	5,749	3	792	6,499	6,541
Other liabilities	4,989	4,585	3,176	2,714	8,165	7,299
Total liabilities	11,485	10,334	3,179	3,506	14,664	13,840
Net assets:						
Invested in capital						
assets, net of related debt	11,937	11,943	1,332	1,231	13,269	13,174
Restricted	584	378	1,556	1,519	2,140	1,897
Unrestricted	(1,516)	(1,542)	1,197	1,209	(319)	(333)
Total net assets	\$11,005	\$10,779	\$4,085	\$3,959	\$15,090	\$14,738

The largest portion of the State's net assets, \$13.3 billion, reflects investment in capital assets such as land, buildings, equipment, and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

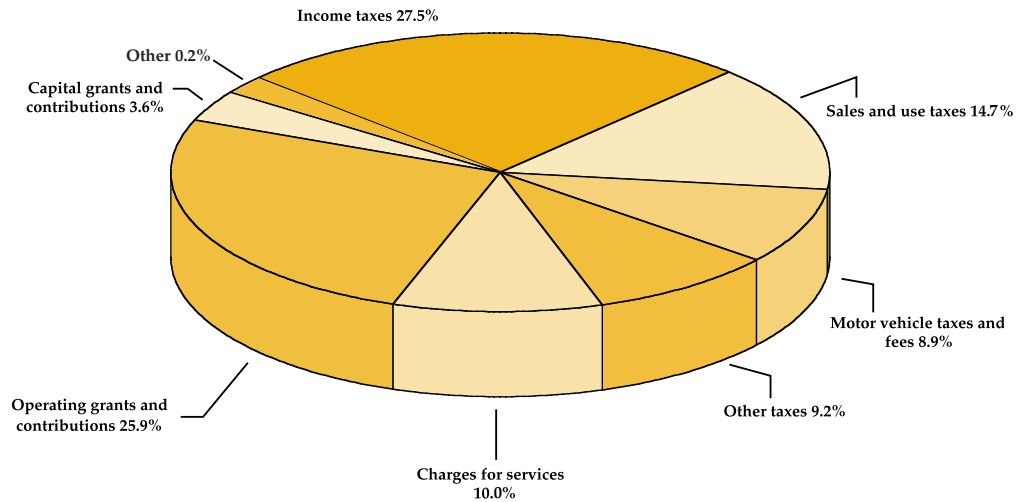
In addition, a portion of the State's net assets, \$2.1 billion, represents resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining deficit balance of unrestricted net assets, \$319 million, reflects the State's ongoing expenses exceeding revenues.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

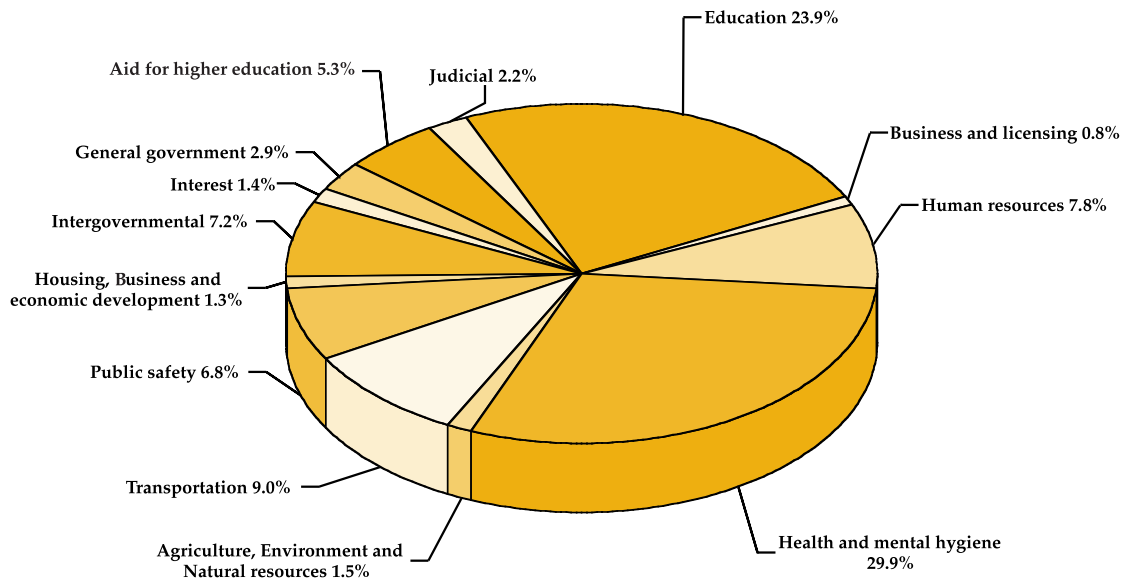
Changes in Net Assets
For the Year Ended June 30, 2004
(Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 2,017	\$ 1,654	\$2,407	\$2,164	\$ 4,424	\$ 3,818
Operating grants and contributions	5,205	4,844	130	136	5,335	4,980
Capital grants and contributions	719	722	58	40	777	762
General revenues:						
Income taxes	5,519	5,108			5,519	5,108
Sales and use taxes	2,945	2,720			2,945	2,720
Motor vehicle taxes	1,793	1,694			1,793	1,694
Other taxes	1,852	1,545			1,852	1,545
Unrestricted investment earnings	48	63	6	14	54	77
Total revenues	20,098	18,350	2,601	2,354	22,699	20,704
Expenses:						
General government	598	665			598	665
Health and mental hygiene	6,090	5,592			6,090	5,592
Education	4,872	4,230			4,872	4,230
Aid for higher education	1,081	1,555			1,081	1,555
Human resources	1,586	1,634			1,586	1,634
Public safety	1,398	1,338			1,398	1,338
Transportation	1,839	1,694			1,839	1,694
Judicial	440	429			440	429
Labor, licensing and regulation	176	183			176	183
Natural resources and recreation	170	168			170	168
Housing and community development	202	204			202	204
Environment	85	95			85	95
Agriculture	46	85			46	85
Business and economic development	59	43			59	43
Intergovernmental grants	1,461	1,422			1,461	1,422
Interest	279	251			279	251
Economic development insurance programs			(5)	3	(5)	3
Economic development loan programs			200	274	200	274
Unemployment insurance program			582	634	582	634
State Lottery			928	884	928	884
Transportation Authority			300	359	300	359
State Use Industries			34	38	34	38
Total expenses	20,382	19,588	2,039	2,192	22,421	21,780
Increase (decrease) in net assets before transfers and special items	(284)	(1,238)	562	162	278	(1,076)
Transfers and special items	436	523	(436)	(409)		114
Change in net assets	152	(715)	126	(247)	278	(962)
Net assets - beginning, as restated	10,853	11,494	3,959	4,206	14,812	15,700
Net assets - ending	\$11,005	\$10,779	\$4,085	\$3,959	\$15,090	\$14,738

REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



EXPENDITURES BY FUNCTION - GOVERNMENTAL ACTIVITIES



Governmental Activities

Governmental activities in fiscal year 2004 resulted in an increase to the State's net assets of \$152 million, compared to a net decrease of \$715 million for the prior year. This increase occurred primarily because revenues increased by \$1.7 billion or 9%, while expenses increased by \$794 million or 4%. The revenue increase was primarily due to an increase in taxes of \$1 billion and charges for services of \$363 million. Overall, the increase in expenses was primarily due to increases in education of \$642 million, health and mental hygiene of \$498 million and transportation of \$145 million. These increases were partially offset by a decrease in aid to higher education of \$474 million.

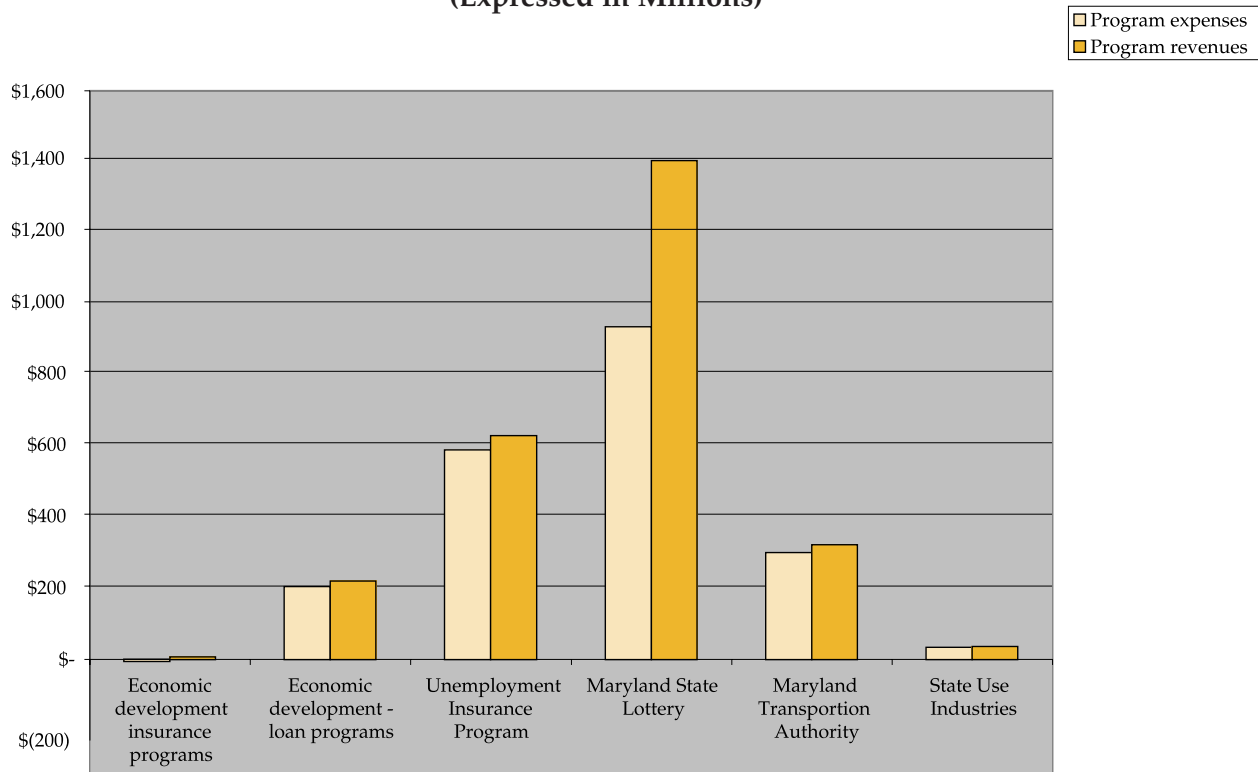
Business-type Activities

Business-type activities increased the State's net assets by \$562 million before transfers of \$436 million to governmental activities. Key elements of this increase are as follows:

- The Unemployment Insurance Program had an increase of \$199 million (68%) in charges for services over the prior year due to a legislatively mandated surcharge on all employers effective January 1, 2004. This provided an increase of \$33 million to net assets compared to a net decrease of \$184 million for the prior year.

- Lottery tickets sales increased \$73 million or 5.5% to \$1.4 billion. The increase to net assets before transfers to the general fund was \$468 million, an increase of \$29 million or 6.6% over the prior year. The increase in sales was attributable primarily to growth of the Mega Millions game and the instant games.
- Charges for services of the Transportation Authority increased by \$51 million (25%) due to the doubling of the toll costs of certain tunnels and bridges. Also, operation and maintenance of facilities expenses decreased by \$48 million (18%) due to the completion of the painting of the Bay Bridge and other projects. The change in net assets was an increase of \$26 million compared to a net decrease of \$82 million for the prior year.

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES (Expressed in Millions)



Financial Analysis of the State's Funds

As of the end of the current fiscal year, the State's governmental funds reported a combined fund balance of \$1.9 billion, an increase of \$182 million from the prior year. The combined fund balance includes \$127 million in unreserved, designated fund balance, in the general fund and a deficit of \$152 million in unreserved, undesignated fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has been committed to: 1) liquidate contracts and purchase orders of the prior period, \$686 million; 2) fund prepaid and inventory items, \$485 million; 3) restricted revenue carry forwards, \$226 million; and 4) reserve for various loans, construction projects, and debt service, \$41 million. In addition, \$513 million of the reserved fund balance is in the "State Reserve Fund," and is set aside to meet future financial needs. The unreserved, designated fund balance, plus the amount in the State Reserve Fund, is approximately 3% of the total annual expenditures in governmental funds, compared with 2% for the prior year.

General Fund

The general fund is the major operating fund of the State. At the end of the current fiscal year, the designated fund balance of the general fund was \$127 million, while total fund balance reached \$1.5 billion. The fund balance of the State's general fund increased by \$305 million during 2004, compared to a decrease of \$450 million for 2003. General fund revenues increased by \$1.3 billion (7.7%) over the prior year, primarily due to increases in income and sales taxes of \$420 million (8%) and \$228 million (8%), respectively. These increases reflect the improvement in the State's economy. Federal revenues increased by \$373 million (7%) primarily due to matching funds received as a result of increased spending for Medicaid. Other licenses and fees increased by \$211 million or 28% due to the "Maryland Health Insurance Plan", a new program which includes health insurance and a senior prescription drug program for the medically uninsurable and underinsured individuals and which is funded primarily from fees paid by hospitals and individuals. In addition, the filing fees for corporations were increased and filing fees for real property transactions increased due to increased volumes.

General fund expenditures increased by \$780 million or 5%. Although expenditures for most functions remained stable or decreased, expenditures for health and mental hygiene and education increased by \$519 million (8%) and \$311 million (7%), respectively, due to increased Medicaid costs, the new Maryland Health Insurance Plan costs and increased support for public school education.

Transfers out were \$173 million compared to \$429 million for the prior year. This decrease was due primarily to a decrease in general fund transfers for debt service and capital projects. Support for debt service was provided through the transfer of bond sale premiums and an increase in the property tax rate.

Special Revenue Fund

The Maryland Department of Transportation special revenue fund accounts for resources used for operation other than debt service and pension activities of the State's transportation activities. The fund balance of the Department's special revenue fund is \$356 million, an increase of \$119 million (50%) over the prior fiscal year. Key factors to this increase were an overall increase in revenues collected of \$280 million (9%), primarily from motor vehicle taxes and fees and charges for services. This increase in revenues was offset by a decrease in other sources and uses of \$134 million (38%), primarily due to an increase in transfers out and a decrease in bonds issued.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget and the final budget and the actual expenditures for the year are summarized as follows:

Overall, the change between the original and final general fund budget was a decrease of \$252 million or 2.4%. This decrease was primarily the result of cost containment measures throughout the State. The principal variance, \$88 million for the State Police, was due to the attainment of federal funds through the Federal Tax Relief Act. This revenue was used to decrease the general fund appropriations. Major differences between the final budget and actual expenditures were the result of encumbrances for additions and improvements to buildings for the Legislature and the Judiciary and for various multi-year projects related to information technology, financing programs of the Departments of Business and Economic Development and Environment. The actual general fund expenditures during the year were \$198 million less than the final general fund budget. Of this amount, \$49 million was returned to the general fund, and the remaining \$149 million was encumbered for future spending.

Capital Asset and Debt Administration

Capital assets

At June 30, 2004, the State had invested \$17.5 billion (net of accumulated depreciation) in a broad range of capital assets (see table below). Depreciation expense for the fiscal year totaled \$883 million (\$829 million for governmental activities and \$54 million for business-type activities). The increase in the State's investment in capital assets, net of depreciation expense, for the current fiscal year was 4.4% (4.6 % for governmental activities and 3% for business-type activities).

Capital Assets as of June 30,
(Net of Depreciation, Expressed in Millions)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2004	2003	2004	2003	2004	2003
Land and improvements	\$2,417	\$2,386	\$108	\$105	\$2,525	\$2,491
Art and historical treasures	27	27			27	27
Construction in progress	2,447	2,232			2,447	2,232
Structures and improvements	3,087	2,827		1	3,087	2,828
Equipment	795	797	13	15	808	812
Infrastructure	7,286	7,089	1,350	1,307	8,636	8,396
Total	\$16,059	\$15,358	\$1,471	\$1,428	\$17,530	\$16,786

Major capital asset events during the current fiscal year included continued construction at the Baltimore Washington International Airport and for various transportation projects, the preservation of agricultural and open space land through the purchase of easements, the lease/purchase of electronic voting machines, improvements to the statewide telecommunications network, energy efficiency improvements in State buildings and building improvements by the Department of Public Safety.

Additional information on the State's capital assets can be found in footnote 10 of this report.

Long-term debt

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues dedicated revenue bonds for the Department of Transportation and various business-type activities. The payment of bond principal and interest on revenue bonds comes solely from revenues received from the respective activities. This dedicated revenue debt is not backed by the State's full faith and credit.

At June 30, 2004, the State had outstanding bonds totaling \$8.2 billion. Of this amount \$4.1 billion were general obligation bonds, backed by the full faith and credit of the State. The remaining \$4.1 billion was secured solely by the specified revenue sources.

Outstanding Bonded Debt as of June 30, (Expressed in Millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds (backed by the State)	\$4,102	\$3,932			\$4,102	\$3,932
Transportation Bonds (backed by specific revenues)	1,188	964			1,188	964
Revenue Bonds (backed by specific revenues)			\$2,936	\$3,221	2,936	3,221
Total	\$5,290	\$4,896	\$2,936	\$3,221	\$8,226	\$8,117

The total increase in bonded debt in the current fiscal year was 1.3% (4.3% increase related to general obligation bonds and a 1.9% decrease related to revenue bonds). The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poors and Fitch. During fiscal year 2004, the State issued general obligation debt totaling \$500 million at a premium of \$52.6 million. On August 10, 2004, the State issued general obligation bonds aggregating \$400 million for capital improvements. In addition, on October 21, 2004, \$574.7 million of general obligation refunding bonds were issued to advance refund certain outstanding general obligation bonds.

State law limits the amount of Consolidated Transportation Bonds, dedicated revenue debt, that may be outstanding as of June 30 to the amount established in the budget, not to exceed \$1.5 billion. The aggregate principal amount of those bonds that was authorized to be outstanding as of June 30, 2004, was \$1,253 million. This amount was in excess of the \$1,186 million in Consolidated Transportation Bonds outstanding. On October 28, 2004, transportation bonds aggregating \$15,500,000 were issued for the purchase of buses.

Additional information on the State's long-term debt can be found in note 11 of this report.

Economic Factors and Next Year's Budget

The budgets for fiscal years ending June 30, 2004 and 2005 have been balanced on one-time fund resources and new revenue sources without increasing Maryland income or sales tax rates. New spending for fiscal year 2005 is focused on primary and secondary education and health care. The Bridge to Excellence in Public Schools Act of 2002 restructured Maryland's public school financing and increased state aid to primary and secondary education. The increases in state aid are being phased in beginning with fiscal year 2004, and will continue through 2008. Education expenditures increased by \$311 million or 7% for fiscal year 2004; and the budget for fiscal year 2005 increased education appropriations an additional \$313 million.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.

BASIC FINANCIAL STATEMENTS

STATE OF MARYLAND

Statement of Net Assets

June 30, 2004

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,914,332	\$ 104,394	\$ 3,018,726	\$ 39,876
Investments	961,516	308,977	1,270,493	295,784
Endowment investments				193,888
Foundation investments				543,852
Inventories	74,425	8,666	83,091	12,259
Prepaid items	412,324		412,324	4,062
Deferred charges	5,163		5,163	7,308
Taxes receivable, net	641,968		641,968	
Intergovernmental receivables	820,099	56	820,155	
Tuition contracts receivable				260,623
Due from primary government				659,320
Due from component units	3,020		3,020	
Other accounts receivable	506,696	182,503	689,199	274,161
Loans and notes receivable, net	23,631	811,920	835,551	74,841
Loans to component units	280		280	
Investment in direct financing leases		418,428	418,428	303,901
Other assets	7,491	5,235	12,726	18,481
Collateral for lent securities	12,714		12,714	
Restricted assets:				
Cash and cash equivalents	39,389	1,080,718	1,120,107	93,332
Investments		1,260,794	1,260,794	77,752
Deferred charges		12,350	12,350	
Due from primary government				221
Loans and notes receivable (net)	8,112	1,562,549	1,570,661	
Other		36,506	36,506	19
Capital assets (net of accumulated depreciation):				
Land	2,416,769	108,278	2,525,047	119,153
Art and historical treasures	27,043		27,043	1,454
Structures and other improvements	3,086,915	444	3,087,359	2,689,834
Equipment	794,834	12,522	807,356	106,838
Infrastructure	7,286,359	1,349,933	8,636,292	293,399
Construction in progress	2,447,266		2,447,266	353,367
Total capital assets	16,059,186	1,471,177	17,530,363	3,564,045
Total assets	22,490,346	7,264,273	29,754,619	6,423,725

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Salaries payable	145,614		145,614	92,425
Vouchers payable	274,424		274,424	
Accounts payable and accrued liabilities	1,153,793	108,588	1,262,381	143,355
Internal balances	297,488	(297,488)		
Due to component units	659,541		659,541	
Due to primary government				3,020
Loans from primary government				280
Accounts payable to political subdivisions	250,170		250,170	
Unearned revenue	154,231	10,512	164,743	88,091
Accrued insurance on loan losses		15,145	15,145	5,057
Accounts payable for local income taxes	1,236,723		1,236,723	
Other liabilities				2,747
Collateral obligations for lent securities	12,714		12,714	
Payables from restricted assets:				
Accounts payable and accrued liabilities		73,263	73,263	
Matured bonds and interest coupons payable	1,788		1,788	
Other liabilities		279,157	279,157	
Revenue bonds payable		2,935,711	2,935,711	
Bonds and notes payable:				
Due within one year	464,245		464,245	67,128
Due in more than one year	5,071,946		5,071,946	1,389,827
Other noncurrent liabilities:				
Due within one year	337,793	50,775	388,568	75,097
Due in more than one year	1,424,575	3,498	1,428,073	644,218
Total liabilities	11,485,045	3,179,161	14,664,206	2,511,245
Net Assets				
Invested in capital assets, net of related debt	11,937,207	1,331,400	13,268,607	2,464,733
Restricted for:				
Health and mental hygiene	90,074		90,074	
Public safety	16,711		16,711	
Natural resources and recreation	39,025		39,025	
Environment	28,822		28,822	
Judiciary	29,729		29,729	
Transportation	256,766		256,766	
Debt service	86,183	72,139	158,322	4,989
Capital improvements and deposits	10,292	185,805	196,097	59,107
Higher education-nonexpendable				426,685
Higher education-expendable				364,964
Loans and notes receivable	8,112		8,112	73,374
Unemployment compensation benefits		800,846	800,846	
Loan programs		388,761	388,761	
Insurance programs		96,089	96,089	
Other	18,844	12,530	31,374	
Unrestricted (deficit)	(1,516,464)	1,197,542	(318,922)	518,628
Total net assets	\$11,005,301	\$4,085,112	\$15,090,413	\$3,912,480

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Activities
For the Year Ended June 30, 2004
 (Expressed in Thousands)

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Operating		Capital	Primary Government				
		Charges for Services	Grants and Contributions		Governmental Activities	Business-Type Activities	Total		
Primary government:									
Governmental activities:									
General government	\$ 598,116	\$ 349,078	\$ 116,965	\$ 10,721	\$ (121,352)	\$ (121,352)	\$ (121,352)		
Health and mental hygiene	6,090,102	289,988	2,779,277		(3,020,837)	(3,020,837)	(3,020,837)		
Education	4,871,972	55,828	762,945		(4,053,199)	(4,053,199)	(4,053,199)		
Aid for higher education	1,081,099				(1,081,099)	(1,081,099)	(1,081,099)		
Human resources	1,586,022	46,403	939,398		(600,221)	(600,221)	(600,221)		
Public safety	1,398,017	57,407	188,922	1,761	(1,149,927)	(1,149,927)	(1,149,927)		
Transportation	1,839,205	716,422	76,499	679,205	(367,079)	(367,079)	(367,079)		
Judicial	439,576	384,215	4,125		(51,236)	(51,236)	(51,236)		
Labor, licensing and regulation	175,551	27,970	138,152		(9,429)	(9,429)	(9,429)		
Natural resources and recreation	169,791	35,018	24,627	4,274	(105,872)	(105,872)	(105,872)		
Housing and community development	202,278	14,671	150,742	18,955	(17,910)	(17,910)	(17,910)		
Environment	85,382	22,428	20,226		(42,728)	(42,728)	(42,728)		
Agriculture	46,427	16,913	2,424	4,577	(22,513)	(22,513)	(22,513)		
Business and economic development	58,666	1,082	604		(56,980)	(56,980)	(56,980)		
Intergovernmental grants	1,461,133				(1,461,133)	(1,461,133)	(1,461,133)		
Interest	278,865				(278,865)	(278,865)	(278,865)		
Total governmental activities	20,382,202	2,017,423	5,204,906	719,493	(12,440,380)	(12,440,380)	(12,440,380)		
Business-type activities:									
Economic development - insurance programs	(4,911)	5,338				\$ 10,249	\$ 10,249		
Economic development - general loan programs	53,237	17,439				(35,798)	(35,798)		
Economic development - water quality loan programs	11,348	20,040		57,611		66,303	66,303		
Economic development - housing loan programs	135,717	124,963				(10,754)	(10,754)		
Unemployment insurance program	581,634	528,238	86,185			32,789	32,789		
Maryland State Lottery	927,941	1,395,408				467,467	467,467		
Maryland Transportation Authority	300,072	280,098	43,806			23,832	23,832		
State Use Industries	33,812	35,682				1,870	1,870		
Total business-type activities	2,038,850	2,407,206	129,991	57,611		555,958	555,958		
Total primary government	\$22,421,052	\$4,424,629	\$5,334,897	\$777,104	(12,440,380)	555,958	(11,884,422)		

Component units:									
Higher education	\$3,084,483	\$1,372,247	\$ 984,639	\$213,575					\$ (514,022)
Maryland Stadium Authority	57,268	29,707	23,546	10,647					6,632
Other component units	194,948	158,587		361					(36,000)
Total component units	\$3,336,699	\$1,560,541	\$1,008,185	\$224,583					(543,390)
General revenues:									
Income taxes					5,518,813			5,518,813	
Sales and use taxes					2,944,534			2,944,534	
Motor vehicle taxes					1,792,769			1,792,769	
Other taxes.					1,852,418			1,852,418	
Grants and contributions									
not restricted to specific programs									849,533
Unrestricted investment earnings					48,134		5,400	53,534	70,898
Additions to permanent endowments									5,050
Transfers					435,534		(435,534)		
Total general revenues, additions to permanent endowments, and transfers					12,592,202	(430,134)	12,162,068		925,481
Change in net assets					151,822	125,824	277,646		382,091
Net assets - beginning					10,779,155	3,959,288	14,738,443		2,948,568
Restatement of beginning balance (Note 1)					74,324		74,324		581,821
Net assets - ending					\$11,005,301	\$4,085,112	\$15,090,413		\$ 3,912,480

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Balance Sheet
Governmental Funds
June 30, 2004
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$2,865,333		\$ 48,999	\$2,914,332
Cash and cash equivalents - restricted		\$ 33,745	1,981	35,726
Cash with fiscal agent - restricted			3,663	3,663
Investments	953,346		8,169	961,515
Prepaid items	360,255	52,071		412,326
Taxes receivable, net	544,529	90,732	6,707	641,968
Intergovernmental receivables	630,251	189,848		820,099
Other accounts receivable	361,661	144,994	40	506,695
Due from other funds	59,859	240,143	92,952	392,954
Due from component units	3,020			3,020
Inventories	19,615	54,810		74,425
Loans and notes receivable, net	1,667	10,438	11,526	23,631
Loans and notes receivable - restricted			8,112	8,112
Loans to component units	280			280
Collateral for lent securities	12,714			12,714
Total assets	\$5,812,530	\$816,781	\$ 182,149	\$6,811,460
Liabilities:				
Salaries payable	\$135,763	\$ 9,850		\$ 145,613
Vouchers payable	181,311	26,829	\$ 66,284	274,424
Accounts payable and accrued liabilities	762,750	296,079	30,135	1,088,964
Due to other funds	661,707	28,735		690,442
Due to component units	659,541			659,541
Accounts payable to political subdivisions	1,401,376	82,800	2,718	1,486,894
Deferred revenue	414,821	16,889	1,114	432,824
Matured bonds and interest coupons payable			1,788	1,788
Accrued self-insurance costs	93,110			93,110
Collateral obligations for lent securities	12,714			12,714
Total liabilities	4,323,093	461,182	102,039	4,886,314
Fund balances:				
Reserved for:				
State reserve fund	513,026			513,026
Encumbrances	247,252	28,191	410,853	686,296
Prepaid items and inventories	378,088	106,881		484,969
Loans and notes receivable	739	8,487	19,136	28,362
Construction projects		10,292		10,292
Restricted revenues	223,205	2,459		225,664
Debt service			1,891	1,891
Unreserved:				
Designated	127,127			127,127
Undesignated, (deficit) reported in:				
Special revenue fund		199,289		199,289
Non-major debt service funds			73,268	73,268
Non-major capital projects fund			(425,038)	(425,038)
Total fund balance	1,489,437	355,599	80,110	1,925,146
Total liabilities and fund balances	\$5,812,530	\$816,781	\$ 182,149	\$6,811,460

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Reconciliation of the Governmental Funds' Fund Balance
to the Statement of Net Assets, Net Assets' Balance**

June 30, 2004

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Net Assets (page 25) differ from the amounts for the governmental funds' fund balances because:

Amount in governmental funds, fund balance (page 28)	\$ 1,925,146
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	16,059,186
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds	265,469
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds	(91,529)
Other assets not available to pay for current period expenditures	20,615
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds	(4,102,278)
Deferred charges to be amortized over the life of the debt	24,905
Premiums to be amortized over the life of the debt	(190,409)
Transportation Bonds	(1,188,090)
Deferred charges to be amortized over the life of the debt	12,946
Premiums to be amortized over the life of the debt	(88,102)
Accrued self-insurance costs	(177,290)
Accrued annual leave	(236,873)
Other long term liabilities	(579,466)
Obligation under capital leases	(345,028)
Obligations under capital leases with component units	(303,901)
Net assets of governmental activities (page 25)	\$ 11,005,301

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND
**Statement of Revenues, Expenditures
and Changes in Fund Balances**
Governmental Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	General	Special Revenue Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 5,499,953			\$ 5,499,953
Sales and use taxes	2,945,060			2,945,060
Motor vehicle taxes and fees		\$1,792,769		1,792,769
Other taxes	1,380,320		\$ 472,097	1,852,417
Other licenses and fees	754,995			754,995
Charges for services	499,337	545,299		1,044,636
Revenues pledged as security for bonds		52,255		52,255
Interest and other investment income	25,299	3,420	3,532	32,251
Federal revenue	5,168,922	703,449		5,872,371
Other	132,092	29,618	1,038	162,748
Total revenues	16,405,978	3,126,810	476,667	20,009,455
Expenditures:				
Current:				
General government	625,445			625,445
Health and mental hygiene	6,064,735			6,064,735
Education.	4,675,110		163,533	4,838,643
Aid to higher education	843,401		237,698	1,081,099
Human resources	1,560,876			1,560,876
Public safety	1,357,943			1,357,943
Transportation		1,143,520		1,143,520
Judicial.	434,135			434,135
Labor, licensing and regulation	174,047			174,047
Natural resources and recreation	166,730			166,730
Housing and community development	202,346			202,346
Environment	84,443			84,443
Agriculture	60,537			60,537
Business and economic development	58,259			58,259
Intergovernmental	504,807	730,343	225,983	1,461,133
Capital outlays.		1,354,365	106,702	1,461,067
Debt service:				
Principal retirement			424,925	424,925
Interest			247,027	247,027
Bond issuance costs	199	187	1,795	2,181
Total expenditures	16,813,013	3,228,415	1,407,663	21,449,091
Deficiency of revenues under expenditures .	(407,035)	(101,605)	(930,996)	(1,439,636)
Other sources (uses) of financial resources:				
Capital leases	66,729	78,726		145,455
Other long-term liabilities		142,015		142,015
Bonds issued		320,000	500,000	820,000
Refunding bonds issued		75,900		75,900
Bond premium		17,894	68,615	86,509
Payments to refunded bond escrow agent		(83,537)		(83,537)
Transfers in	818,101	130,663	162,566	1,111,330
Transfers out	(173,026)	(460,637)	(42,133)	(675,796)
Total other sources of financial resources	711,804	221,024	689,048	1,621,876
Net change in fund balances	304,769	119,419	(241,948)	182,240
Fund balances, July 1, 2003	1,184,668	236,180	322,058	1,742,906
Fund balances, June 30, 2004	\$ 1,489,437	\$ 355,599	\$ 80,110	\$ 1,925,146

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Reconciliation of the Statement of the Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2004
(Expressed in Thousands)**

Amounts reported for governmental activities in the Statement of Activities (pages 26-27) are different from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because of the following		
Net change in fund balances - total governmental funds (page 30)		\$ 182,240
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlays	\$1,549,158	
Depreciation expense	(828,849)	720,309
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
Net loss on disposals and trade-ins	(19,361)	(19,361)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Deferred revenues for taxes are recognized,		
net of revenue already recognized in the prior year	18,335	
Deferred revenues for other revenues are recognized,		
net of revenue already recognized in the prior year	44,929	63,264
The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		
Debt issued, General Obligation Bonds	(500,000)	
Debt issued, Transportation Bonds	(395,900)	
Capital lease financing	(146,044)	
Other long-term financing	(142,015)	
Discounts and issuance costs	(65,025)	
Principal repayments:		
General Obligation Bonds	330,215	
Transportation Bonds	172,210	
Capital leases	56,579	
Other long-term financing	5,301	(684,679)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated absences	1,923	
Self-insurance	(4,882)	
Deferred charges	(3,997)	
Accrued interest	(5,392)	
Other long term liabilities	(97,603)	(109,951)
Change in net assets of governmental activities (page 27)		\$ 151,822

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND
ENTERPRISE FUND FINANCIAL STATEMENTS

Major Funds

Economic Development Loan Programs

This fund includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.

Unemployment Insurance Program

This fund reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment assessments collected from employers, federal revenue received and remittance of benefits to the unemployed.

Maryland State Lottery Agency

This fund accounts for the operation of the State Lottery

Maryland Transportation Authority

This fund accounts for the activity of the Maryland Transportation Authority, which is responsible for the operation and maintenance of toll roads, bridges and tunnels around the State.

Non-major Funds

Other Enterprise Funds

Individual non-major enterprise funds are presented in the combining section following the footnotes.

STATE OF MARYLAND

Statement of Net Assets

Enterprise Funds

June 30, 2004

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets:						
Current assets:						
Cash and cash equivalents		\$ 3,211	\$ 1,780	\$ 99,393	\$ 10	\$ 104,394
Investments	\$ 176,160		46,571	59,837		282,568
Other accounts receivable	9,993	129,905	21,970	16,407	4,228	182,503
Due from other funds	164,783		64,993	270	15,871	245,917
Intergovernmental receivables				56		56
Inventories			1,316	1,151	6,199	8,666
Loans and notes receivable, net	40,134				136	40,270
Investment in direct financing leases				20,862		20,862
Other assets	163		93		3,354	3,610
Current restricted assets:						
Cash and cash equivalents	230,766			165,224		395,990
Cash on deposit with U.S. Treasury		684,728				684,728
Investments	335,677			77,132		412,809
Due from other funds					96,089	96,089
Loans and notes receivable, net	48,496					48,496
Other accounts receivable	35,880					35,880
Total current assets	1,042,052	817,844	136,723	440,332	125,887	2,562,838
Non-current assets:						
Investments	25,587				822	26,409
Due from other funds				9,887		9,887
Loans and notes receivable, net.	771,073				577	771,650
Investment in direct financing leases				397,566		397,566
Other assets				1,625		1,625
Restricted non-current assets:						
Investments	635,060		212,925			847,985
Deferred charges	12,350					12,350
Loans and notes receivable, net	1,514,053					1,514,053
Other accounts receivable	626					626
Capital assets (net of accumulated depreciation):						
Land				108,278		108,278
Structures and improvements					444	444
Equipment	39		3,508	4,448	4,527	12,522
Infrastructure				1,349,834	99	1,349,933
Total non-current assets	2,958,788		216,433	1,871,638	6,469	5,053,328
Total assets	4,000,840	817,844	353,156	2,311,970	132,356	7,616,166

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	7,103		34,935	64,561	1,989	108,588
Due to other funds			39,855	13,124		52,979
Accrued insurance and loan losses ..	199				14,946	15,145
Other liabilities	101		48,536	1,170	968	50,775
Deferred revenue			3,587	5,190	1,735	10,512
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	56,265	16,998				73,263
Due to other funds	1,426					1,426
Other liabilities	13,599					13,599
Revenue bonds payable	325,265			21,222		346,487
Total current liabilities	403,958	16,998	126,913	105,267	19,638	672,774
Non-current liabilities:						
Other liabilities	143		2,036		1,319	3,498
Non-current liabilities payable from restricted assets:						
Other liabilities	42,494		212,925	10,139		265,558
Revenue bonds payable	1,983,280			605,944		2,589,224
Total non-current liabilities	2,025,917		214,961	616,083	1,319	2,858,280
Total liabilities	2,429,875	16,998	341,874	721,350	20,957	3,531,054
Net Assets:						
Invested in capital assets, net of related debt	39		377	1,325,914	5,070	1,331,400
Restricted for:						
Debt service				72,139		72,139
Capital improvements				185,805		185,805
Unemployment compensation benefits		800,846				800,846
Loan programs	388,761					388,761
Insurance programs					96,089	96,089
Other			10,905	1,625		12,530
Unrestricted	1,182,165			5,137	10,240	1,197,542
Total net assets	\$1,570,965	\$800,846	\$ 11,282	\$1,590,620	\$111,399	\$4,085,112

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)**

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Lottery ticket sales			\$1,395,408			\$1,395,408
Charges for services and sales (net of allowances of \$9,198)	\$ 9,099	\$491,513		\$ 257,052	\$ 39,181	796,845
Loan and grant recoveries	1,354					1,354
Unrestricted interest on loan income	123,437				604	124,041
Restricted interest on loan income	5,774					5,774
Unrestricted interest and other investment income	5,591					5,591
Restricted interest and other investment income	18,817					18,817
Other	3,973			43,806	7	47,786
Total operating revenues	168,045	491,513	1,395,408	300,858	39,792	2,395,616
Operating expenses:						
Prizes and claims			786,802			786,802
Commissions and bonuses			91,298			91,298
Cost of sales and services			19,549		28,038	47,587
Operation and maintenance of facilities	2,651			212,756		215,407
General and administrative	26,964		28,550	10,508	7,701	73,723
Benefit payments		581,634				581,634
Interest	113,643					113,643
Restricted interest expense	6,105					6,105
Depreciation and amortization	1,290		1,624	51,315	1,130	55,359
Provision for (reduction in) insurance and loan losses	16,902				(7,968)	8,934
Other	20,408					20,408
Total operating expenses	187,963	581,634	927,823	274,579	28,901	2,000,900
Operating income (loss)	(19,918)	(90,121)	467,585	26,279	10,891	394,716
Non-operating revenues (expenses):						
Unrestricted interest and other						
investment income	(2,258)			2,067		(191)
Restricted interest and other investment income	(11)	36,725		23,046	1,218	60,978
Interest expense			(118)	(25,493)		(25,611)
Federal grants and distributions		86,185				86,185
Other	(12,340)				10	(12,330)
Total non-operating revenues (expenses)	(14,609)	122,910	(118)	(380)	1,228	109,031
Income (loss) before contributions and transfers	(34,527)	32,789	467,467	25,899	12,119	503,747
Capital contributions	57,611					57,611
Transfers in	30,868					30,868
Transfers out	(6,029)		(458,373)		(2,000)	(466,402)
Change in net assets	47,923	32,789	9,094	25,899	10,119	125,824
Total net assets - beginning	1,523,042	768,057	2,188	1,564,721	101,280	3,959,288
Total net assets-ending	\$1,570,965	\$800,846	\$ 11,282	\$1,590,620	\$111,399	\$4,085,112

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND

Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers	\$645,555	\$452,394	\$1,398,714	\$ 275,344	\$ 39,734	\$ 2,811,741
Payments to suppliers	(2,067)		(41,463)	(158,272)	(22,435)	(224,237)
Payments to employees	(10,773)		(10,657)	(63,368)	(13,717)	(98,515)
Other receipts (payments)	(286,686)	(586,360)	(64,158)	38,166	(1,532)	(900,570)
Lottery prize payments			(773,931)			(773,931)
Net cash provided (used) by operating activities	346,029	(133,966)	508,505	91,870	2,050	814,488
Cash flows from noncapital financing activities:						
Proceeds from the sale of revenue bonds	466,682					466,682
Payment on revenue bonds	(801,970)			(19,855)		(821,825)
Interest payments	(120,617)			(5,967)		(126,584)
Transfers in	30,637					30,637
Transfers out	(6,029)		(496,409)		(2,000)	(504,438)
Capital contributions	58,260					58,260
Grants		86,185				86,185
Lottery installment payments			(51,636)			(51,636)
Other	(10,028)		(105,794)	(43,997)		(159,819)
Net cash provided (used) by noncapital financing activities ..	(383,065)	86,185	(653,839)	(69,819)	(2,000)	(1,022,538)
Cash flows from capital and related financing activities:						
Proceeds from notes payable and revenue bonds				109,459		109,459
Principal paid on notes payable and revenue bonds				(600)		(600)
Interest payments			(118)	(21,006)		(21,124)
Acquisition of capital assets				(73,317)	(1,268)	(74,585)
Payment of capital lease obligations ..			(1,243)			(1,243)
Net cash provided (used) by capital and related financing activities ...			(1,361)	14,536	(1,268)	11,907
Cash flows from investing activities:						
Purchase of investments	(806,650)		(69,119)	(1,564,716)		(2,440,485)
Proceeds from maturity and sale of investments	670,849		216,394	1,643,796		2,531,039
Interest on investments	27,561	36,725		7,270	1,218	72,774
Payments for investment in direct financing leases				(150,858)		(150,858)
Proceeds from investment in direct financing leases				24,858		24,858
Net cash provided (used) by investing activities	(108,240)	36,725	147,275	(39,650)	1,218	37,328
Net change in cash and cash equivalents	(145,276)	(11,056)	580	(3,063)		(158,815)
Balance - beginning of the year	376,042	698,995	1,200	267,680	10	1,343,927
Balance - end of the year	\$ 230,766	\$687,939	\$ 1,780	\$ 264,617	\$ 10	\$ 1,185,112

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$(19,918)	\$ (90,121)	\$467,585	\$26,279	\$10,891	\$394,716
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	(1,406)		1,624	51,315	1,130	52,663
Interest on investments and bonds	91,314					91,314
Deferred prize payments			10,154			10,154
Effect of changes in assets and liabilities:						
Other accounts receivable	5,580	(39,478)	2,566	(2,359)	1,101	(32,590)
Intergovernmental receivables				464		464
Due from other funds	110,060		27,096		(1,620)	135,536
Inventories			(1,315)	24	15	(1,276)
Loans and notes receivable	204,907				1,261	206,168
Other assets	27,663		(37)		477	28,103
Investments-restricted (mortgage backed securities)	(50,325)					(50,325)
Accounts payable and accrued liabilities	(21,998)	(4,367)	153	13,082	(1,790)	(14,920)
Due to other funds	(38)					(38)
Accrued insurance on loan losses	34				(9,448)	(9,414)
Other liabilities	156		(61)	1,299	1,018	2,412
Deferred revenue			740	1,766	(985)	1,521
Total adjustments	365,947	(43,845)	40,920	65,591	(8,841)	419,772
Net cash provided (used) by operating activities	\$ 346,029	\$(133,966)	\$508,505	\$91,870	\$ 2,050	\$814,488
Noncash transactions (amounts expressed in thousands):						
Loan Programs -						
Unrealized loss on investments	\$(10,828)					
Lottery agency - Acquisition of capital assets through capital leases			\$ 2,002			
Transportation Authority-						
Additions to capital assets				\$20,754		

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Agency Funds
Assets:			
Cash and cash equivalents	\$ 1,664,928		\$ 66,684
Investments			
U.S. Treasury and agency obligations	316,821	\$1,078,893	
Repurchase agreements		347,935	
Bonds	1,452,094		
Corporate equity securities	8,793,008		
Commercial paper		75,690	
Bankers acceptances		59,316	
Mortgage related securities	1,256,447		
Mutual funds	16,191,060	80,764	
Guaranteed investment contracts	470,926		
Real estate	782,550		
Annuity contracts	337,084		
Investment held by borrowers under securities lent with cash collateral	1,532,515		
Total investments	31,132,505	1,642,598	
Taxes receivable, net			154,061
Accounts receivable from state treasury			1,308,046
Other receivables	487,265	539	2,400
Collateral for lent securities	1,575,643		
Total assets	34,860,341	1,643,137	1,531,191
Liabilities:			
Accounts payable to state treasury			49,525
Accounts payable and accrued liabilities	1,234,852	1,572	122,685
Accounts payable to political subdivisions			1,358,981
Collateral obligation for lent securities	1,575,643		
Total liabilities	2,810,495	1,572	1,531,191
Net assets:			
Held in trust for:			
Pension benefits (A schedule of funding progress for each of the plans may be found on pages 85 & 86)	30,252,646		
Deferred compensation benefits	1,797,200		
Local Government Investment Pool participants		1,641,565	
Total net assets	\$32,049,846	\$1,641,565	\$ -

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Year Ended June 30, 2004

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund
Additions:		
Contributions:		
Employers	\$ 242,696	
Members	345,489	\$4,539,423
Sponsors	411,029	
Total contributions	999,214	4,539,423
Investment earnings:		
Net increase in fair value of investments	4,073,407	
Interest	271,603	16,955
Dividends	190,984	
Real estate operating net earnings.	29,515	
Net change in annuity reserves	2,876	
Total investment earnings	4,568,385	16,955
Less: investment expense	69,079	
Net investment earnings	4,499,306	16,955
Total additions	5,498,520	4,556,378
Deductions:		
Benefit payments	1,685,052	
Distributions to participants		16,955
Redemptions (unit transactions at \$1.00 per unit)		4,417,372
Refunds	11,942	
Administrative expenses	22,731	
Total deductions	1,719,725	4,434,327
Change in net assets	3,778,795	122,051
Net assets - beginning	28,271,051	1,519,514
Net assets - ending	\$32,049,846	\$1,641,565

The accompanying notes to the financial statements are an integral part of these financial statements.



STATE OF MARYLAND
COMPONENT UNIT FINANCIAL STATEMENTS

Major Component Units

Higher Education

Higher education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single component unit. The financial information for certain foundations affiliated with the universities and colleges has not been included in this fund in accordance with GASB Statement #14 as amended by GASB Statement #39.

Maryland Stadium Authority

The Maryland Stadium Authority was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State.

Non-major Component Units

Other Component Units

Non-major component units are presented individually in the combining section following the footnotes.

STATE OF MARYLAND

Combining Statement of Net Assets

Component Units

June 30, 2004

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Assets:				
Cash and cash equivalents	\$ 37,253	\$ 332	\$ 2,291	\$ 39,876
Investments	35,432		260,352	295,784
Endowment investments	193,888			193,888
Foundation investments	543,852			543,852
Inventories	12,259			12,259
Prepaid items	4,062			4,062
Deferred charges	2,201	5,107		7,308
Tuition contracts receivable	86,107		174,516	260,623
Other accounts receivable	252,994	6,861	14,306	274,161
Due from primary government	615,555	4,774	38,991	659,320
Loans and notes receivable, net	69,611	5,230		74,841
Investments in direct financing leases		294,443	9,458	303,901
Other assets	8,056	152	10,273	18,481
Restricted assets:				
Cash and cash equivalents	93,257	75		93,332
Investments	29,405	27,363	20,984	77,752
Due from primary government			221	221
Other	19			19
Capital assets (net of accumulated depreciation):				
Land	113,370		5,783	119,153
Art and historical treasures	1,454			1,454
Structures and improvements	2,423,026	250,065	16,743	2,689,834
Infrastructure	103,545	1,820	1,473	106,838
Equipment	284,603		8,796	293,399
Construction in progress	350,124		3,243	353,367
Total assets	5,260,073	596,222	567,430	6,423,725
Liabilities:				
Salaries payable	92,425			92,425
Accounts payable and accrued liabilities	118,613	11,657	13,085	143,355
Due to primary government		3,020		3,020
Loans from primary government			280	280
Unearned revenue	74,215	13,648	228	88,091
Accrued insurance on loan losses			5,057	5,057
Other liabilities	2,481		266	2,747
Bonds and notes payable:				
Due within one year	52,533	11,760	2,835	67,128
Due in more than one year	1,058,590	309,189	22,048	1,389,827
Other noncurrent liabilities:				
Due within one year	54,314	1,569	19,214	75,097
Due in more than one year	124,643	770	518,805	644,218
Total liabilities	1,577,814	351,613	581,818	2,511,245

	Higher Education	Stadium Authority	Other Component Units	Total
Net Assets:				
Invested in capital assets, net of related debt	2,223,216	216,075	25,442	2,464,733
Restricted:				
Debt service		2,892		2,892
Capital improvements and deposits		24,547	221	24,768
Nonexpendable:				
Scholarships and fellowships	164,951			164,951
Research	6,871			6,871
Other	254,863			254,863
Expendable:				
Debt service	2,097			2,097
Capital projects	34,339			34,339
Loans and notes receivable	73,374			73,374
Scholarships and fellowships	88,315			88,315
Research	128,418			128,418
Other	148,231			148,231
Unrestricted (deficit)	557,584	1,095	(40,051)	518,628
Total net assets (deficiency)	\$3,682,259	\$244,609	\$ (14,388)	\$3,912,480

The accompanying notes to the financial statements are an integral part of these financial statements

STATE OF MARYLAND

Combining Statement of Activities

Component Units

For the Year Ended June 30, 2004

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Expenses:				
General and administrative		\$ 5,475	\$ 12,933	\$ 18,408
Operation and maintenance of facilities	\$ 217,345	16,359	63,325	297,029
Provision for insurance on loan losses, net			(1,120)	(1,120)
Instruction	877,982			877,982
Research	592,025			592,025
Public service	143,719			143,719
Academic support	248,312			248,312
Student services	116,559			116,559
Institutional support	307,724			307,724
Scholarships and fellowships	55,977			55,977
Tuition benefits			114,635	114,635
Auxiliary	335,278			335,278
Hospitals	56,209			56,209
Interest on long-term debt	43,639	19,130	1,692	64,461
Depreciation and amortization		11,008	2,548	13,556
Foundation expenses	89,714			89,714
Other		5,296	935	6,231
Total expenses	3,084,483	57,268	194,948	3,336,699
Program revenues:				
Charges for services:				
Student tuition and fees				
(net of \$152,924 in allowances)	754,528			754,528
Auxiliary enterprises				
(net of \$22,670 in allowances)	379,873			379,873
Restricted investment earnings	60,009	936	157	61,102
Other	177,837	28,771	158,430	365,038
Total charges for services	1,372,247	29,707	158,587	1,560,541
Operating grants and contributions	984,639	23,546		1,008,185
Capital grants and contributions	213,575	10,647	361	224,583
Total program revenues	2,570,461	63,900	158,948	2,793,309
Net program revenue (expense)	(514,022)	6,632	(36,000)	(543,390)
General revenues:				
Grants and contributions not restricted to				
specific programs	849,533			849,533
Unrestricted investment earnings	42,100	334	28,464	70,898
Additions to permanent endowments	5,050			5,050
Total general revenues and additions to				
permanent endowments	896,683	334	28,464	925,481
Change in net assets	382,661	6,966	(7,536)	382,091
Net assets - beginning	2,717,777	237,643	(6,852)	2,948,568
Restatement of prior period (Note 1)	581,821			581,821
Net assets - ending	\$3,682,259	\$244,609	\$(14,388)	\$3,912,480

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

**Index For
Notes to Financial Statements
For the Year Ended June 30, 2004**

Note 1 - Summary of Significant Accounting Policies	48
Note 2 - Assets, Liabilities and Net Assets or Equity	51
Note 3 - Deposits with Financial Institutions and the U.S. Treasury and Investments	54
Note 4 - Receivables	58
Note 5 - Deferred Revenue	59
Note 6 - Loans and Notes Receivable and Investment in Direct Financing Leases	59
Note 7 - Restricted Assets	60
Note 8 - Interfund Receivables and Payables	61
Note 9 - Interfund Transfers	62
Note 10 - Capital Assets	62
Note 11 - Long-Term Obligations	64
Note 12 - Insurance	72
Note 13 - Fund Equity	73
Note 14 - Segment Information	74
Note 15 - Retirement Benefits	75
Note 16 - Commitments	79
Note 17 - Contingencies	80
Note 18 - Tobacco Settlement	80
Note 19 - Landfill Closure and Postclosure Care Costs	80
 Notes to Required Supplementary Information	
Note 1 - Budgeting and Budgetary Control	87

STATE OF MARYLAND

Notes to the Financial Statements For the year ended June 30, 2004

1. Summary of Significant Accounting Policies:

A. Reporting Entity

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America, these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual statements are presented for each.

Higher Education (Proprietary Fund Type) – Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. The financial information for certain foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14 as amended by GASB Statement No. 39.

Maryland Stadium Authority (Proprietary Fund Type) - The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight members are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The Maryland College Prepaid Trust is directed by the Maryland Higher Education Investment Board. The Board consists of four State officials and five members of the public appointed by the Governor. The Trust provides a method for Maryland citizens to save money for college tuition.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

Related Organizations

The Maryland Economic Development Corporation, Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship.

B. Government-wide and Fund Financial Statements

The State's government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements except for certain charges for services between activities that would distort the direct costs and program revenues reported for the applicable functions. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

General Fund:

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety, judicial, labor, licensing and regulation, natural resources and recreation, housing and community development, environment, agriculture, and business and economic development. Resources obtained from federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

Maryland Department of Transportation, Special Revenue Fund:

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

Enterprise Funds:

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.
2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, federal revenue received and remittance of benefits to the unemployed.
3. The Maryland State Lottery Agency operates the State Lottery.
4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels around the State.

Fiduciary Funds:

The State reports the following fiduciary funds.

1. The Pension and Other Employee Benefits Trust Fund includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and is accounted for using the flow of economic resources measurement focus. Investment purchases and sales are recorded as of their respective trade dates and all contributions, benefits and refunds are recognized in the period when due. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.
2. The Investment Trust Fund reflects the transactions, assets, liabilities and fund equities of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.
3. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of litigants, patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

D. Change in Accounting Principles/Restatement of Beginning Balances:

As of July 1, 2003, the State adopted GASB Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues. This technical bulletin resulted in changes to the recognition of a receivable and revenues related to payments to the State under the Master Settlement Agreement with the major tobacco companies. As a result of adopting this technical bulletin, the beginning net assets for the governmental activities is restated as follows (amounts expressed in thousands).

Beginning net assets as previously reported	\$10,779,155
Recognition of estimated revenues relating to cigarette sales from January 1 through June 30	<u>74,324</u>
Beginning net assets, as restated	<u>\$10,853,479</u>

As of July 1, 2003, the State adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. This statement resulted in certain foundations for the Higher Education component unit, whose economic resources are significant to the State, being included within the Higher Education component unit. Accordingly, the beginning net assets for the Higher Education component unit were restated to include these foundations. In addition, the beginning net assets for the Higher Education component unit were restated due to an overstatement of capital assets in prior fiscal years. The restatement of the beginning net assets for the Higher Education component unit is as follows (amounts expressed in thousands).

Beginning net assets, as previously reported	\$2,717,777
Inclusion of certain foundations	614,221
Adjustment of capital asset balances	<u>(32,400)</u>
Beginning net assets, as restated	<u>\$3,299,598</u>

E. Implementation of New Pronouncement:

The State has implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, effective for fiscal year ended June 30, 2004. Implementation of this standard had no impact on the State's financial position.

F. New Pronouncements:

In March, 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment of GASB Statement No. 3, which addresses common deposit and investment risks. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The State is in the process of assessing the impact of these statements and will implement them as of the effective date.

2. Assets, Liabilities and Net Assets or Equity:

A. All Funds:

Deposits with Financial Institutions and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Investments are recorded at fair value and changes in fair value are recognized as revenue. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded. Investments maturing within 90 days of purchase are reported in the financial statements as cash and cash equivalents. Changes in the carrying value of investments of the State Lottery Agency accrue to the benefit of the unpaid prize winners. Consequently, these investments are presented at contract/face value.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems. (See Note 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary funds and discretely presented component units on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

Capital Assets:

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure acquired prior to fiscal years ended after June 30, 1980, is not reported. Capital assets are defined by the government as assets with an initial, individual cost of more than \$50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	5-50
Building improvements	5-50
Vehicles	3-25
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

Long-term Obligations:

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Resources:

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

Debt Refinancing:

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the shorter of the life of the new debt or old debt.

Net Assets:

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal of the related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State. Unrestricted net assets is total net assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets are comprised mainly of cash, investments, loans, and receivables.

B. Governmental Funds:

Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

Grants:

Revenues from federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

Income Taxes:

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

Sales and Use Taxes:

The State accrues June sales taxes that are not remitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

Property Taxes:

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real property subject to taxation, due and payable each July 1 and December 1 (lien dates), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at 100% of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate in fiscal year 2004 was 13.2¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1 and January 1 respectively, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Property taxes are accrued to the extent they are collected within 60 days of year end.

Escheat Property:

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. The asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

Intergovernmental Expenditures:

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions and other public organizations, are recorded as intergovernmental expenditures. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

Capital Assets:

Expenditures for capital assets are reported as capital outlays in the governmental funds.

Compensated Absences:

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

C. Enterprise Funds, Fiduciary Funds and Component Units:

Basis of Accounting:

The accounts of the enterprise funds, fiduciary funds, and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide and the proprietary fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents:

The enterprise funds consider all highly liquid investments that mature within 90 days of purchase to be cash and cash equivalents for reporting on the statement of cash flows.

Grants:

Revenues from federal reimbursement type grants are recorded when the related expenses are incurred.

Capital Assets:

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 25 to 50 years for depreciable real property, 5 to 10 years for building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues, Prizes and Related Transfers:

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's gen-

eral fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

Inventories:

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

3. Deposits with Financial Institutions and the U.S. Treasury and Investments:

Cash and cash equivalents for the governmental funds, enterprise funds, fiduciary funds and component units totaled \$2,953,721,000, \$1,185,112,000, \$1,731,612,000, and \$133,208,000 respectively, as of June 30, 2004. Included as cash and cash equivalents for financial statement presentation were certain short term investments which are included in Note 3B and categorized as to custodial credit risk or included in Note 3B and not categorized as to credit risk because they do not exist in physical or book entry form. These cash and cash equivalents totaled \$2,953,721,000, \$494,713,000, \$1,555,621,000, and \$101,504,000 for the governmental funds, enterprise funds, fiduciary funds, and component units, respectively, as of June 30, 2004.

As of June 30, 2004, non-negotiable certificates of deposits totaling \$20,839,000 and \$1,500,000 were included in the investments of the governmental and enterprise funds, respectively. These investments were entirely insured by Federal depository insurance or collateralized by securities held by the State's agent in the State's name.

A. Cash Deposits

Cash deposits are categorized to give an indication of the level of custodial credit risk assumed by the State. Category 1 includes deposits insured or collateralized with securities held by the State or its agent in the State's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 includes deposits which are uncollateralized.

As of June 30, 2004, both the carrying value and the bank balance for the bank deposits of the governmental funds totaled \$20,839,000. This amount was insured by Federal depository insurance or collateralized by securities held by the State's agent in the State's name and is a Category 1 asset.

As of June 30, 2004, the book balance for the bank deposits for the enterprise funds of the primary government was \$691,899,000 and the bank balance was \$701,576,000. Of this amount \$6,125,000 was insured by Federal depository insurance or collateralized by securities held by the State's agent in the State's name and is a Category 1 asset, and \$415,000 was collateralized with securities held by the pledging financial institution's trust department in the agency's name and is categorized as risk Category 2. Of the remaining amount, \$456,000 was uninsured and uncollateralized and is a Category 3 asset, and \$694,580,000 was on deposit with the U.S. Treasury and is not categorized as to custodial credit risk in accordance with GASB Statement No. 3.

As of June 30, 2004, both the carrying value and the bank deposits for the fiduciary funds totaled \$175,991,000. Of that amount \$67,195,000 was pooled by the State and is comprised of Category 1 assets. The remaining bank balance of \$108,796,000 was uninsured and uncollateralized and is a Category 3 asset.

As of June 30, 2004, the carrying value of bank deposits for the component units, excluding the deposits of the higher education foundations in the amount of \$3,434,000, totaled \$7,561,000. The associated bank balance of cash deposited with financial institutions for the component units was \$13,573,000. Of this amount, \$13,105,000 is a Category 1 asset and is insured by Federal, private or foreign national government depository insurance, or was collateralized by a pledge of U.S. Treasury obligations held by the component unit's agent in the component unit's name. The remaining \$468,000 is categorized as risk Category 3.

B. Investments

The State's investments are classified as to custodial credit risk by the three categories described below.

- | | |
|------------|---|
| Category 1 | Insured or registered, or securities held by the State or its agent in the State's name. |
| Category 2 | Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. |
| Category 3 | Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the State's name. |

All of the State's investments held at year-end are subject to classification of custodial credit risk except for those investments, that do not exist in physical or book entry form, which by their nature are not subject to risk categorization. The State's pooled investments that are not subject to risk categorization include the Maryland Local Government Investment Pool, annuity contracts, guaranteed investment contracts, mutual funds, real estate, and investments held by borrowers for lent securities collateralized with cash.

1. Investments-Governmental Funds:

Investments are stated at fair value that is based on quoted market prices. The investments as of June 30, 2004, for the governmental funds of the primary government are categorized as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations	\$ 784,424			\$ 784,424
Repurchase agreements	<u>2,849,847</u>			<u>2,849,847</u>
	<u>\$3,634,271</u>			<u>3,634,271</u>
Items not subject to classification:				
Money market mutual funds				116,588
Local Government				
Investment Pool				<u>156,253</u>
Total				<u>\$3,907,112</u>

As of June 30, 2004, cash in the amount of \$3,663,000 was maintained with fiscal agents and is included above. Of this amount, \$1,788,000 represents resources transmitted to bond paying agents for which coupons have not been presented. This cash was invested in mutual funds that invest only in U.S. Treasury and agency obligations and, therefore, is not categorized. The remainder, \$1,875,000, represents sinking fund deposits made to redeem the 2002 Qualified Zone Academy Bonds due in 2016. This cash was used to purchase repurchase agreements which are collateralized with U.S. Treasury Obligations and guaranteed U.S. agency instruments and is classified as a Category 1 investment.

The Maryland Local Government Investment Pool is operated in accordance with Rule 2 a-7 of the Investment Company Act of 1940, as amended. As of June 30, 2004, the net asset value, offering and redemption price per share was \$1.00. The fair value of the State of Maryland's investment in the pool is equal to the fair value of its shares in the pool.

2. Investments-Enterprise Funds:

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices and, for the Lottery, contract/face value. The investment policies for all enterprise funds, with the exception of the Economic Development Loan Programs, are the same as those of the State Treasurer. The Economic Development Loan Programs are authorized to invest in obligations of the U.S. Treasury, U.S. Government agencies and corporations, political subdivisions of the U.S., banker's acceptances, repurchase agreements, corporate debt securities, certificates of deposit with foreign or domestic banks, corporate equity securities, convertible debt and limited partnership interests.

The investments as of June 30, 2004, for the enterprise funds of the primary government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations	\$1,403,576			\$1,403,576
Repurchase agreements	143,726			143,726
Corporate equity securities	<u>267</u>			<u>267</u>
	<u>\$1,547,569</u>			<u>1,547,569</u>
Items not subject to classification:				
Money market mutual funds				460,820
Annuity contracts				203
Guaranteed investment contracts				19,549
Direct equity investments				22,315
Investments held by borrowers under securities				
lent with cash collateral				<u>12,528</u>
Total				<u>\$2,062,984</u>

3. Investments-Fiduciary Funds:

The Pension Trust Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland and the Board of Trustees of the State's Supplemental Retirement Plans. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the Funds.

Investments of the State Retirement and Pension System of Maryland and the Maryland Transit Administration Pension Plan are stated at fair value. The investments of the Maryland Transit Administration Pension Plan are held and invested on their behalf by the State Retirement and Pension System of Maryland. For fixed income securities, fair value is based on quoted

market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of real estate investments which are based on estimated current values and independent appraisals. Fair value for alternative investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers.

State employees are offered participation in a deferred compensation plan (Plan) created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b) and 457. The Board of Trustees of the State's Supplemental Retirement Systems is responsible for the implementation, maintenance and administration of the Plan. The Board has appointed a private company as the Plan administrator. Assets of the Plan are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plan are stated at fair value. Fair value of the investments are valued at cost plus interest credited for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment carrier, for variable earnings investments.

The Maryland Local Government Investment Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2. Investments of the plan are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.

The investments as of June 30, 2004, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations	\$ 1,395,714			\$ 1,395,714
Repurchase agreements	347,986			347,986
Bonds	1,452,093			1,452,093
Corporate equity securities	8,793,009			8,793,009
Commercial paper	254,689			254,689
Bankers acceptances	59,316			59,316
Mortgage backed securities	<u>1,256,447</u>			<u>1,256,447</u>
	<u>\$13,559,254</u>			<u>13,559,254</u>
Items not subject to classification:				
Guaranteed investment contracts				470,926
Insurance contracts				4,124
Annuity contracts				337,084
Mutual funds				16,271,823
Real estate				782,550
Global pooled with short term investments . . .				1,372,448
Investments held by borrowers under securities lent with cash collateral:				
U.S. Treasury and agency obligations				528,844
Bonds				126,526
Corporate equity securities				877,145
Collateral for loaned securities				<u>1,575,643</u>
Total				<u>\$35,906,367</u>

The Funds may invest in derivatives as permitted by guidelines established by the Board of Trustees of the State Retirement and Pension Systems of Maryland. Compliance with these guidelines is monitored by the Fund's staff. At times, the Funds invest in foreign currency forward contracts, options, futures, swaps, collateralized mortgage obligations, mortgage-backed securities, interest-only securities and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives is the risk that the counterparty will be unable to meet its obligations. Substantially all derivatives are recorded at fair value in the Statement of Net Assets.

The Funds invest in foreign currency forward contracts to hedge the currency risk in their international and global portfolios. These contracts are reported at fair value based on published market prices and quotations from major investment firms. The Funds could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Funds seek to minimize risk from counterparties by establishing minimum credit quality standards.

4. Investments-Component Units:

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, asset-backed securities and mutual funds that invest in government securities.

The Maryland Stadium Authority's marketable securities are held by the Bond Trustee. Proceeds to purchase these marketable securities were derived from various bond issues, and any proceeds from the sale of these marketable securities are restricted to the purpose of the original bond issue.

Investments of the higher education institutions and the Maryland Stadium Authority are stated at fair value, which is based on quoted market prices.

The investments as of June 30, 2004, for the discretely presented component units, excluding the investments of the higher education foundations in the amount of \$578,684,000, are as follows (amounts expressed in thousands). The foundation investments are not categorized in accordance with GASB Statement No. 3 because the foundations are not required to and do not follow the GASB.

	Category			Fair Value
	1	2	3	
U.S. Treasury and agency obligations	\$ 27,040	\$ 289		\$ 27,329
Repurchase agreements			\$1,584	1,584
Corporate debt securities	13,330	657		13,987
Corporate equity securities	154,544	1		154,545
Asset-backed securities	8,742	2,131		10,873
Foreign government securities		27		27
	<u>\$203,656</u>	<u>\$3,105</u>	<u>\$ 1,584</u>	208,345
Items not subject to classification:				
Mutual funds				<u>446,460</u>
Total				<u>\$654,805</u>

C. Securities Lending Transactions:

1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent.

Securities on loan at year-end are owned by the Maryland State Lottery Agency and are reported as assets on the Statement of Net Assets and presented as unclassified in the preceding Investments-Enterprise Funds schedule of custodial credit risk in Note 3B.2. At year-end, the State has no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. As of June 30, 2004, the fair value of the loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Lent Securities	Collateral Received	
Securities-US Treasury Obligations	\$12,528	\$12,714	101.5%

Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. The duration of lending agreements is matched with the term to maturity of the investment of the cash collateral by investing only in repurchase agreements. Such matching existed at year-end. Investments made with cash received as collateral are reported as Governmental Activities assets on the Statement of Net Assets and are included in the preceding Investments-Governmental Funds schedule in Note 3B.1.

The bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2004.

2. Fiduciary Funds:

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. All lent securities are reported as assets on the Statement of Fiduciary Net Assets. Securities on loan at year-end for cash collateral are presented as unclassified in the preceding investments – fiduciary funds schedule of custodial credit risk. Securities on loan at year-end for collateral other than cash are classified according to the custodial credit risk category applicable to the collateral received.

Borrowing brokers must transfer in the form of cash or other securities, collateral valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or market risk on securities lending activity since inception of the program. As of June 30, 2004, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities, as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Lent Securities	Collateral Received	
Securities:			
International equity securities	\$ 550,741	\$ 577,990	104.9%
Fixed and domestic equity securities	1,009,063	1,025,402	101.6%
Total	<u>\$1,559,804</u>	<u>\$1,603,392</u>	

Although the average term of the Funds' security loans is one week, each loan can be terminated at will by either the Funds or the borrower. Cash collateral is invested in one of the lending agent's short-term investment pools, which at June 30, 2004, had a weighted average maturity of 52 days and an average expected maturity of 118 days. Because the relationship between the maturities of the investment pools and the Fund's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults. Investments made with cash received as collateral and the corresponding liabilities are reported in the Statement of Fiduciary Net Assets, Pension and Other Employee Benefits Trust Funds.

4. Receivables:

Taxes receivable, as of June 30, 2004, consist of the following (amounts expressed in thousands)

	Major Governmental Funds		Non-Major Governmental Funds
	General	Special Revenue	
Income taxes	\$220,195		
Sales and use taxes	310,682		
Transportation taxes, principally motor vehicle fuel and excise		\$ 90,732	
Other taxes, principally alcohol and property	21,435		\$6,707
Less: allowance for uncollectibles	<u>(7,783)</u>		
Taxes receivable, net	<u>\$544,529</u>	<u>\$90,732</u>	<u>\$6,707</u>

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to tax revenues of the current period are \$5,252,000.

Other accounts receivable in the governmental funds of \$506,696,000, including \$73,732,000 due in excess of one year, consist of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, reimbursement and rebates for health and mental hygiene facilities, and public assistance and food stamp overpayments and surcharges.

Other accounts receivable for the enterprise funds of \$219,009,000, primarily consist of \$129,905,000 due to the Maryland Unemployment Trust Fund from employers and for benefit overpayments, and \$21,970,000, due to the Maryland State Lottery Agency for lottery ticket sale proceeds.

Other accounts receivable in the agency funds of \$1,308,046,000 represent cash pooled in the State treasury that is being held pending distribution to local governments.

5. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds, and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned
Tax receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	\$ 97,649	
Other receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	167,683	
Other receivables for revenues not considered available to liquidate liabilities of the current period (special revenue fund)	13,124	
Other receivables for revenues not considered available to liquidate liabilities of the current period (other governmental funds)	137	
Income tax and other receipts that have been received, but not earned (general fund)		\$149,489
Revenue in connection with resources that have been received, but not earned (special revenue fund)		3,765
Revenue in connection with resources that have been received, but not earned (other governmental funds)		977
Revenue in connection with resources that have been received, but not earned (enterprise funds)		10,512
Total deferred/unearned revenue for governmental funds and enterprise funds	\$278,593	\$164,743

6. Loans and Notes Receivable and Investment in Direct Financing Leases:

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2004, consist of the following (amounts expressed in thousands).

	Primary Government				Component Units	
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority
Notes receivable:						
Political subdivisions -						
Water quality projects			\$ 5,540	\$ 519,026		
Construction		\$10,438				
Other			48			
Hospitals and nursing homes			5,939			
Permanent mortgage loans				2,041,923		
Student and health profession loans					\$74,281	
Shore erosion loans			8,111			
Other	\$ 1,667				5,291	\$5,230
Total	1,667	10,438	19,638	2,560,949	79,572	5,230
Less: Allowance for possible loan losses.				186,480	9,961	
Loans and notes receivable, net	1,667	10,438	19,638	2,374,469	69,611	5,230
Due within one year	288	3,105	2,818	88,766	12,715	343
Due in more than one year	\$1,379	\$7,333	\$16,820	\$2,285,703	\$56,896	\$4,887

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 3.3% to 8.8% and mature in not more than 29 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

B. Investment in Direct Financing Leases:

Enterprise Funds:

As of June 30, 2004, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation and Washington Metropolitan Area Transit Authority. The present value of the direct financing leases as of June 30, 2004 was \$418,428,000. As of June 30, 2004, the Authority held \$89,602,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2005	\$ 30,994
2006	33,306
2007	34,688
2008	43,857
2009	44,084
2010-2014	225,282
2015 -2019	167,780
2020 -2024	154,881
2025 -2029	111,169
2030-2032	<u>35,255</u>
Total	881,296
Less: Unearned interest income	<u>373,266</u>
Net lease payments	508,030
Restricted investments related to unexpended bond proceeds	<u>89,602</u>
Net investments in direct financing leases	<u>\$418,428</u>

Component Units:

As of June 30, 2004, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2004, is \$294,443,000. As of June 30, 2004, the Authority held \$26,512,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2005	\$ 30,481
2006	31,543
2007	31,695
2008	31,858
2009	31,297
2010-2014	157,758
2015-2019	129,471
2020-2024	64,306
2025-2026	<u>13,840</u>
Total	522,249
Less: Unearned interest income	<u>201,294</u>
Net lease payments	320,955
Restricted investments related to unexpended bond proceeds	<u>26,512</u>
Net investments in direct financing leases	<u>\$294,443</u>

7. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2004, were as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
\$33,745	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements.
1,981	Represents cash and cash equivalents restricted for debt service payments according to bond agreements.
1,788	Represents funds transmitted to bond paying agents and restricted for payments for coupons and bonds that have not been presented.
1,875	Represents sinking fund deposits restricted for redemption of term bonds.
8,112	Shore Erosion Control Program loans, the repayments of which are restricted by statute for future loans.

Business-type Activities:		
\$2,644,170	Assets of the Community Development Administration and the State Funded Loan Programs are restricted for various mortgage loans for low-income housing and local governments' public facilities.	
168,738	The purpose of the restricted assets is to secure the loans and revenue bonds of the Maryland Water Quality Administration made for waste-water treatment systems, drinking systems and secured deposits.	
684,728	Restricted assets represent deposits with the U.S. Treasury to pay unemployment compensation benefits in accordance with federal statute.	
212,925	This cash is held in separate annuity contracts and coupon bonds in the Maryland State Lottery Agency for winning lottery ticket payouts.	
242,356	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects, facility operations, and debt service.	
Component Units:		
\$122,681	Restricted assets of higher education include funds held by the trustee for future construction projects, cash restricted for endowment purposes, and assets associated with student loans and loan repayments.	
27,438	Restricted assets of Maryland Stadium Authority include cash and cash equivalents and investments that relate to revenue bond indentures.	
20,984	Restricted assets include investments that relate to revenue bond indentures and to restricted project advances for the provision of water supply and waste-water treatment by the Maryland Environmental Service.	
221	Assets of the Maryland Food Center Authority restricted by agreements with tenants.	

8. Interfund Receivables and Payables:

Interfund balances, as of June 30, 2004, consist of the following (amount expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	\$18,578 (a)
	Enterprise Funds	
	Economic Development Loan Programs	1,426 (b)
	Maryland State Lottery Agency	39,855 (a)
		<u>\$ 59,859</u>
Special Revenue Fund	General Fund	\$227,019
	Maryland Transportation Authority	13,124 (c)
		<u>\$240,143</u>
Non-major Governmental Funds	General Fund	<u>\$ 92,952</u>
Enterprise Funds -		
Economic Development Loan Programs	General Fund	\$164,783
Maryland State Lottery Agency	General Fund	64,993
Maryland Transportation Authority	Special Revenue Fund	10,157 (d)
Non-major Enterprise Funds	General Fund	111,960
		<u>\$351,893</u>

The receivable and payable transactions between the Primary Government and Component Units, as of June 30, 2004, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Component Units -	
	Maryland Stadium Authority	\$3,020 (a)
Components Units -		
Higher Education Fund	General Fund	\$615,555
Maryland Stadium Authority	General Fund	4,774
Non-major Component Units	General Fund	39,212
		<u>\$659,541</u>

- (a) The amounts represent monies collected by the special revenue fund, the Maryland State Lottery and the Maryland Stadium Authority in June, 2004, and paid to the general fund in July, 2004.
- (b) The amounts represent short term advances from the general fund, which should not be occurring in the future.
- (c) The Maryland Transportation Authority collects fees for the special revenue fund. The money will be used to build and maintain special revenue fund infrastructure, structures and other improvements.
- (d) The Maryland Transportation Authority lent funds to the special revenue fund for a construction project at the Seagirt Marine Terminal. The balance outstanding at June 30, 2004 was \$10,157,000. Payments will continue for 33 years after completion of the project.

All remaining amounts which are due from the general fund represent pooled cash belonging to the other funds on deposit with the State Treasurer.

All interfund balances except for (d), above, are expected to be repaid by June 30, 2005.

9. Interfund Transfers:

Interfund transfers, as of June 30, 2004, consist of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	\$325,385
	Non-major Governmental Funds	26,314
	Enterprise Funds -	
	Maryland State Lottery Agency	458,373
	Economic Development Loan Programs	6,029
	Non-major Enterprise Funds	<u>2,000</u>
		<u>\$818,101</u>
Special Revenue Fund	General Fund	<u>\$130,663</u>
Non-major Governmental Funds	General Fund	\$ 27,314
	Special Revenue Fund	<u>135,252</u>
		<u>\$162,566</u>
Enterprise Funds - Loan Programs	General Fund	\$ 15,049
	Non-major Governmental Funds	<u>15,819</u>
		<u>\$ 30,868</u>

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred \$2,431,000 of interest earned on bonds, \$23,167,000 return of funds for rescinded pay-as-you-go capital projects, and \$716,000 of Shore Erosion loan funds to the general fund. The general fund transferred \$620,000 for redemptions and interest on state bonds, \$9,358,000 for program open space capital projects, and \$17,336,000 for other capital projects, primarily public school construction, to the non-major governmental funds.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of \$458,373,000, to the general fund. The general fund transferred \$15,049,000 to support the operations of Enterprise Funds – Loan Programs and the Enterprise Funds – Loan Programs transferred \$5,529,000 of unused funds to the general fund. Also, expenditures for capital projects of \$15,819,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of \$837,538,000 and \$199,293,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had net expenditures of \$16,926,000 that were for funds provided to supplement revenues of the Maryland Stadium Authority.

10. Capital Assets:

A. Capital Assets, Primary Government:

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2004, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Balance July 1, 2003	Additions	Deletions	Transfers In (Out)	Balance June 30, 2004
Capital assets, not being depreciated,					
Land and improvements	\$ 2,386,186	\$ 3,599	\$ 2,736	\$ 29,721	\$ 2,416,770
Art and historical treasures	26,883	160			27,043
Construction in progress	<u>2,231,964</u>	<u>1,087,438</u>	<u>12,662</u>	<u>(859,475)</u>	<u>2,447,265</u>
Total capital assets, not being depreciated	<u>4,645,033</u>	<u>1,091,197</u>	<u>15,398</u>	<u>(829,754)</u>	<u>4,891,078</u>
Capital assets, being depreciated,					
Structures and improvements	4,290,320	67,626	2,109	311,989	4,667,826
Equipment	1,861,257	78,232	42,811	98,567	1,995,245
Infrastructure	<u>12,022,205</u>	<u>316,264</u>	<u>17,039</u>	<u>419,198</u>	<u>12,740,628</u>
Total capital assets, being depreciated ..	<u>18,173,782</u>	<u>462,122</u>	<u>61,959</u>	<u>829,754</u>	<u>19,403,699</u>
Less accumulated depreciation for,					
Structures and improvements	1,462,825	121,664	3,578		1,580,911
Equipment	1,064,631	169,452	33,672		1,200,411
Infrastructure	<u>4,933,120</u>	<u>537,733</u>	<u>16,584</u>		<u>5,454,269</u>
Total accumulated depreciation	<u>7,460,576</u>	<u>828,849</u>	<u>53,834</u>		<u>8,235,591</u>
Total capital assets, net	\$15,358,239	\$ 724,470	\$23,523		\$16,059,186

Business-type activities:

Classification	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets, not being depreciated,				
Land and improvements	\$ <u>105,080</u>	\$ <u>3,198</u>		\$ 108,278
Capital assets, being depreciated,				
Structures and improvements	1,142	101		1,243
Equipment	32,610	3,256	\$680	35,186
Infrastructure	<u>2,163,008</u>	<u>90,815</u>		<u>2,253,823</u>
Total capital assets, being depreciated.. ..	<u>2,196,760</u>	<u>94,172</u>	<u>680</u>	<u>2,290,252</u>
Less accumulated depreciation for,				
Structures and improvements	724	75		799
Equipment	17,666	5,662	664	22,664
Infrastructure	<u>855,547</u>	<u>48,343</u>		<u>903,890</u>
Total accumulated depreciation	<u>873,937</u>	<u>54,080</u>	<u>664</u>	<u>927,353</u>
Total capital assets, net	\$1,427,903	\$43,288	\$ 16	\$1,471,177

B. Depreciation Expense, Primary Government:

The depreciation expense for the year ended June 30, 2004, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	\$ 27,486
Education	13,279
Judiciary	2,581
Business and economic development	12
Labor, licensing and regulation	496
Human resources	25,647
Health and mental hygiene	23,599
Environment	678
Transportation	678,849
Public safety	32,683
Housing and community development	1,924
Natural resources and recreation	14,574
Agriculture	7,041
Total depreciation expense – governmental activities	<u>\$828,849</u>

Business-type activities:

Function	Amount
State Lottery	\$ 1,623
Transportation Authority	51,315
State Use Industries	1,132
Economic Development Loan Programs	10
Total depreciation expense - business type activities	\$ 54,080

11. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long-term debt, for the year ended June 30, 2004, are as follows (amounts expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	\$3,932,493	\$ 500,000	\$ 330,215	\$4,102,278	\$347,775
Transportation Bonds	964,400	395,900	172,210	1,188,090	116,470
Deferred amounts:					
Issuance premiums	212,979	86,509	20,977	278,511	
Refunding	(24,250)	(13,597)	(5,159)	(32,688)	
Total bonds and notes payable	<u>5,085,622</u>	<u>968,812</u>	<u>518,243</u>	<u>5,536,191</u>	<u>464,245</u>
Other Liabilities:					
Compensated absences	231,306	151,834	146,267	236,873	145,581
Self insurance costs	262,222	729,889	721,711	270,400	101,387
Escheat property	30,938	36,426	18,207	49,157	26,700
Obligations under capital leases	262,792	126,364	44,128	345,028	45,024
Obligations under capital leases with component units	296,672	19,091	11,862	303,901	13,156
Other long-term liabilities	<u>322,692</u>	<u>239,617</u>	<u>5,300</u>	<u>557,009</u>	<u>5,945</u>
Total other liabilities	<u>1,406,622</u>	<u>1,303,221</u>	<u>947,475</u>	<u>1,762,368</u>	<u>337,793</u>
Total long-term liabilities- governmental activities	\$6,492,244	\$2,272,033	\$1,465,718	\$7,298,559	\$802,038

General Obligation Bonds -

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans authorized by particular enabling acts. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2004. Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund and capital projects fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2004, the State issued \$500,000,000 of general obligations at a premium of \$52,615,000 with related issuance costs of \$1,994,000. The bonds were used to fund capital improvements.

Refunded bonds of \$152,165,000 maturing in fiscal years 2006-2010 and callable in fiscal year 2005 were considered defeased as of June 30, 2004. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

General obligation bonds issued and outstanding, as of June 30, 2004, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
6/3/93(a)	1994-2006	4.50-5.10%	\$ 147,740	\$ 30,810
10/21/93(a)	1995-2009	3.00-4.75	283,545	76,010
3/3/94	1997-2009	3.50-4.75	119,965	31,020
6/2/94	1997-2009	4.88-5.50	120,000	10,065
10/20/94	1998-2010	5.00-6.00	160,000	26,115
3/23/95	1998-2010	5.00-5.70	175,000	28,660
10/26/95	1998- 2010	4.50-5.13	150,000	91,840
2/29/96	1999-2011	4.00-4.90	170,000	104,085
6/20/96	1999-2011	5.00-5.25	150,000	92,620
10/24/96	2000-2012	5.00	170,000	117,335
3/13/97	2000-2012	5.00	240,000	165,135
8/14/97	2001-2013	4.75-5.00	250,000	189,165
3/5/98	2001-2013	4.50-5.00	250,000	189,165
7/22/98	2002-2014	5.00-5.25	250,000	205,505
3/11/99	2002-2014	4.00-4.50	225,000	183,650
7/29/99	2003-2015	4.25-5.25	125,000	110,015
8/3/00	2004-2016	5.13-5.75	200,000	188,925
3/8/01	2004-2016	4.00-5.50	200,000	188,885
7/26/01	2005-2017	5.00-5.50	200,000	200,000
11/21/01	2016	0 (b)	18,098	18,098
3/21/02(a)	2003-2017	4.00-5.50	309,935	284,240
8/15/02(a)	2003-2018	3.00-5.50	515,830	484,815
3/6/03(a)	2005-2018	5.00-5.25	586,120	586,120
8/5/03	2007-2019	5.00	<u>500,000</u>	<u>500,000</u>
			\$5,516,233	\$4,102,278

(a) Includes refunding debt

(b) Qualified Zone Academy Bonds are non-interest bearing.

General obligation bonds authorized, but unissued, as of June 30, 2004, total \$1,946,454,000.

As of June 30, 2004, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2005	\$ 347,775	\$ 203,571
2006	386,025	186,093
2007	401,555	166,697
2008	382,515	147,897
2009	372,750	128,357
2010-2014	1,485,240	381,527
2015-2019	<u>726,418</u>	<u>81,802</u>
Total	\$4,102,278	\$1,295,944

On August 10, 2004, general obligation bonds aggregating \$400,000,000 were issued for capital improvements. The interest rate on the new issue is 5.0%, and the bonds mature serially through 2020. Also, on October 21, 2004, general obligation refunding bonds aggregating \$574,655,000 were issued to advance refund certain outstanding general obligation bonds issued between 1995 and 2001 with interest rates ranging from 4.0% to 6.0%, in order to realize savings on debt service costs. The interest rate on the new issue is 5.0% and the bonds mature serially through 2016. As a result of the refunding, a net present value savings of approximately \$23,600,000 will be realized.

Transportation Bonds -

Transportation bonds outstanding as of June 30, 2004, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds – 2.0% to 5.5%, due serially through 2019	\$ 847,500
Consolidated Transportation Bonds, Refunding – 1.5% to 5.5%, due serially through 2014	338,150
County Transportation Bonds – 5.9% to 6.2%, due serially through 2006	<u>2,440</u>
Total	\$1,188,090

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport, rail, or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed \$1,500,000,000 through June 30, 2004 and \$2,000,000,000 thereafter. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2004, was \$1,253,000,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2004, was \$1,185,650,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are applicable to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department, and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues. Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department.

Arbitrage regulations are applicable to the transportation bonds payable. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2004.

During fiscal year 2004, the Department issued \$395,900,000 of Consolidated Transportation Bonds at a premium of \$33,894,000. Of the total bonds issued, \$75,900,000 was used to advance refund certain bonds issued between 1996 and 1999. The remainder was used to fund capital improvements. The amounts related to the refunding bonds and related premium of \$7,691,000 were transferred to an escrow agent and used to purchase U.S. government securities. These securities will be used to secure the principal, call premium, and interest related to the refunded bonds. The purpose of the refunding was to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is \$4,759,000. The economic gain on the transaction is \$3,710,000. Refunded bonds of \$77,500,000 were considered defeased as of June 30, 2004. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2004, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Consolidated and County Transportation Bonds			
Years Ending June 30,		Principal	Interest
2005	.....	\$ 116,470	\$ 54,076
2006	.....	92,280	49,780
2007	.....	68,290	46,531
2008	.....	68,990	43,569
2009	.....	74,210	40,708
2010-2014	.....	372,970	152,908
2015-2019	.....	<u>394,880</u>	<u>53,518</u>
Total	.....	\$1,188,090	\$ 441,090

On October 28, 2004, transportation bonds aggregating \$15,500,000 were issued for the purchase of shuttle buses at BWI Airport. The interest rates on the new issue range from 2.8% to 3.6%, and the final maturity date is October 15, 2016.

Obligations Under Capital Leases -

Obligations under capital leases as of June 30, 2004, bore interest at annual rates ranging from 2.0% to 5.9%. Capital Lease Obligations with third parties in fiscal year 2004 increased by \$131,144,000 for master equipment and building leases entered into by the general fund and leases for various transportation related projects entered into by the Maryland Department of Transportation. The capital leases with component units include the general fund's capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and with other non-major

component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2004 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations with	
	Third Parties	Component Units
2005	\$ 67,455	\$ 32,661
2006	55,163	33,583
2007	45,627	33,633
2008	42,819	33,761
2009	41,141	33,209
2010-2014	162,207	164,102
2015-2019	129,237	131,876
2020-2024	105,129	64,306
2025-2029	82,686	13,840
2030-2033	15,661	
Total future minimum payments	747,125	540,971
Less: Amount representing interest	(272,218)	(205,623)
Less: Restricted cash and investments	(129,879)	(31,447)
Present value of net minimum payments ..	\$345,028	\$303,901

The reduction shown for restricted cash and investments in the amount of \$161,326,000 are monies held by the bond trustee to be used primarily for construction expenditures, including \$129,879,000 held on behalf of the Maryland Economic Development Corporation.

The assets acquired through capital leases are as follows (amounts expressed in thousands).

Asset	Third Parties
	Amount
Construction in progress	\$116,910
Land and improvements	13,513
Buildings and improvements	371,214
Machinery and equipment	202,718
Infrastructure	31,836
Total acquired assets	736,191
Less: accumulated depreciation	(164,559)
Total capital assets-net	\$571,632

Other Liabilities –

The Maryland Department of Transportation has entered into several financing agreements, primarily with the Maryland Transportation Authority, for the financing of various transportation related projects, similar in nature to capital leases. The Department has obligations under other long-term liabilities of \$400,813,000 as of June 30, 2004, bearing interest at annual rates ranging from 1.0% to 6.6%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2004 (amounts expressed in thousands).

Years Ending June 30,	Other Liabilities
2005	\$ 27,319
2006	28,712
2007	30,096
2008	39,262
2009	39,488
2010-2014	202,308
2015-2019	144,808
2020-2024	138,600
2025-2029	99,483
2030-2032	35,255
Total future minimum payments	785,331
Less: Amount representing interest	(334,811)
Less: Restricted cash and investments	(49,707)
Present value of net minimum payments	\$ 400,813

The reduction shown for restricted cash and investments in the amount of \$49,707,000 is monies held by the bond trustee on behalf of the Maryland Transportation Authority to be used primarily for construction expenditures.

The assets acquired through other long-term liabilities are as follows (amounts expressed in thousands).

Assets	Amount
Construction in progress	\$ 95,860
Buildings and improvements	278,505
Machinery and equipment	325
Infrastructure	<u>100,226</u>
Total acquired assets	474,916
Less: accumulated depreciation	<u>(7,608)</u>
Total capital assets – net	<u>\$467,308</u>

Included in Other Liabilities is the State's Net Pension Obligation of \$141,196,000.

For the governmental activities, compensated absences, self insurance, escheat property claim payments, obligations under capital leases and other liabilities are generally liquidated by the general or special revenue fund as applicable.

B. Long Term Obligations – Business-type Activities:

Changes in long-term obligations for business-type activities as of June 30, 2004, are as follows (amounts expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds Payable:					
Revenue bonds payable	\$3,220,797	\$581,662	\$866,748	\$2,935,711	\$346,487
Other Liabilities:					
Lottery prizes	416,929	89,631	247,063	259,497	46,571
Escrow deposits		51,001	11,686	39,315	13,461
Rebate liability	28,108	1,436	12,092	17,452	251
Compensated absences	7,165	5,755	5,264	7,656	1,665
Self insurance costs	5,717	2,365	1,704	6,378	988
Obligations under capital leases	2,371	2,002	1,241	3,132	1,438
Total other liabilities	<u>460,290</u>	<u>152,190</u>	<u>279,050</u>	<u>333,430</u>	<u>64,374</u>
Total long-term liabilities- business type activities	\$3,681,087	\$733,852	\$1,145,798	\$3,269,141	\$410,861

Debt service requirements for business-type activities' notes payable and revenue bonds to maturity are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 315,335	\$ 100,116	\$ 9,930	\$ 3,967	\$ 21,222	\$ 26,280
2006	51,825	95,824	8,695	4,872	28,080	25,380
2007	68,330	93,618	9,945	4,364	34,420	23,996
2008	74,580	90,528	9,922	4,239	26,127	22,255
2009	74,080	87,097	9,844	4,088	26,556	21,636
2010-2014	364,650	382,955	42,944	7,387	140,197	97,288
2015-2019	353,630	289,031	5,360	330	84,878	76,021
2020-2024	319,400	202,341			101,666	51,541
2025-2029	240,350	123,269			89,265	21,903
2030-2034	145,845	68,205			30,970	4,285
2035-2039	125,080	36,784				
2040-2044	70,750	13,528				
2045-2049	14,375	949				
Total	<u>2,218,230</u>	<u>1,584,245</u>	<u>96,640</u>	<u>29,247</u>	<u>583,381</u>	<u>370,585</u>
Discounts, premiums and other deferred costs	(6,325)					
Accumulated accreted interest					43,785	
Total	<u>\$2,211,905</u>	<u>\$1,584,245</u>	<u>\$96,640</u>	<u>\$29,247</u>	<u>\$627,166</u>	<u>\$370,585</u>

Community Development Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$2,643,756,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 1.0% to 9.4%, with the bonds maturing serially through June, 2047. The principal amount outstanding as of June 30, 2004, is \$2,211,905,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 102% of the outstanding principal amount. During fiscal year 2004, the Administration issued \$465,300,000 of revenue bonds with interest rates ranging from 1.2% to 5.9% and maturing serially through June, 2047.

During the year ended June 30, 2004, the Administration issued \$27,445,000 to current refund \$27,445,000 of outstanding various Multi-Family Housing Revenue Bonds and Infrastructure Financing Bonds issued between 1992 and 1995 with interest rates ranging from 4.7% to 6.9%, in order to realize savings. The refunding bonds have fixed interest rates ranging from 2.0% to 4.9% and an estimated variable rate of 4.8% and maturities ranging from 2005-2036. The aggregate difference in debt service between the refunded debt and the refunding debt is \$8,514,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is \$4,925,000.

The Administration issues short-term tax-exempt bonds to preserve its allocation of the state volume ceiling until the issuance of long-term bonds to finance mortgages. In fiscal year 2004, the Administration issued Series 2003, Series D and Series 2003, Series E, which are still outstanding as of June 30, 2004. Series 2002, Series D and Series 2002, Series E were issued in fiscal year 2003 and either were redeemed prior to maturity or matured in fiscal year 2004.

The short-term debt that was issued in fiscal year 2004 was in the Residential Revenue Bond Program Fund. The following summarizes short-term debt activity in 2004 (amounts expressed in thousands).

Outstanding short-term debt at June 30, 2003	\$109,945
Issuance	220,310
Retirements	<u>109,945</u>
Outstanding short-term debt as of June 30, 2004	\$220,310

This amount of short-term debt is included in the restricted revenue bonds payable on the Statement of Net Assets.

Subsequent to June 30, 2004, the Administration issued a total of \$60,000,000, and redeemed a total of \$51,065,000, of revenue bonds.

Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Environment, has issued revenue bonds for providing loans. Interest rates range from 4.7% to 7.1% with principal of \$84,975,000 due serially from September 1, 2004 to September 1, 2014, and term bonds with an aggregate principal of \$11,665,000 due from September 1, 2013 to 2015. These bonds are payable solely from the revenue, money or property of the Administration. The bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at premiums ranging up to 2.5% of the outstanding principal amount.

Maryland Transportation Authority Bonds:

Bonds outstanding as of June 30, 2004, are as follows (amounts expressed in thousands).

Series 1991 Revenue bonds, maturing on July 1, 2004 for \$8,200 with interest at 6.5 %, payable semiannually	\$ 8,200
Series 1992 Revenue bonds, current interest serial bonds, maturing in annual installments from \$13,970 to \$14,570 from July 1, 2004, to July 1, 2006, with interest rates ranging from 5.7% to 5.8%, payable semiannually	28,360
Series 1992 Capital appreciation revenue bonds maturing in annual installments of original principal and an accreted amount ranging from \$721 to \$6,857 from July 1, 2004, to July 1, 2015, with approximate yield to maturity of 6.0% to 6.4%	84,681
Series 1998 Revenue refunding bonds maturing in annual installments ranging from \$220 to \$9,510 from July 1, 2004 to July 1, 2006, with interest rates ranging from 4.4% to 5.0%, payable semiannually	15,405
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002 a, maturing in annual installments ranging from \$1,630 to \$8,505 from July 1, 2004, to July 1, 2032, with interest rates ranging from 2.7% to 6.7%, payable semiannually	116,745
BWI Parking Garage Revenue Bonds, Series 2002 b, maturing in annual installments ranging from \$4,315 to \$17,470 from March 1, 2005, to March 1, 2027, with interest rates ranging from 4.0% to 5.3%, payable semiannually	264,075
BWI Facilities Projects Bonds, Series 2003, maturing in annual installments ranging from \$8,800 to \$11,200 from March 1, 2008, to March 1, 2014, with interest rates ranging from 1.0% to 1.1%, payable semiannually	69,700
WMATA Metrorail Parking Projects Bonds, Series 2004, maturing in annual installments ranging from \$1,040 to \$2,780 from March 1, 2006, to March 1, 2028, with interest rates ranging from 3.0% to 5.0%, payable semiannually	<u>40,000</u>
Total	\$627,166

Revenue bonds are payable solely from the revenues of the transportation facilities projects. The Series 1991 and 1992 Revenue Bonds are subject to redemption at the Authority's option on or after July 1, 2004, at a redemption price of 100% of the principal amount.

Capital appreciation bonds payable as of June 30, 2004, include accreted interest in the amount of \$43,785,000.

The Authority entered into an Escrow Deposit Agreement on June 10, 2003, to defease \$69,525,000, the outstanding principal amount of the 1994 Series Special Obligation Revenue Bonds and deposited \$86,671,000 with an escrow agent. The revenue bonds are callable on July 1, 2004. The revenue bonds are considered defeased, and the liability for these bonds has been removed from the financial statements.

During the year ended June 30, 2004, the Authority issued \$69,700,000 of BWI Facilities Projects Revenue Bonds, Series 2003 to finance the costs of certain projects (the Airport Facilities Projects) located at Baltimore/Washington International Airport (BWI). The facilities are leased to the Maryland Aviation Administration (MAA) through a direct financing lease. The bonds are payable as to principal and interest solely from passenger facility charges from the MAA. The bonds issued in accordance with the provisions of the 2003 Trust Agreement and interest thereon do not constitute a debt or pledge of the faith and credit of the State of Maryland, the Maryland Department of Transportation or the MAA, but are payable solely from the passenger facility charges which the Authority will receive in the form of direct financing lease payments.

During the year ended June 30, 2004, the Authority issued \$40,000,000 of Metrorail Parking Projects Revenue Bonds, Series 2004 to finance three parking garages at Washington Metropolitan Area Transit Authority (WMATA) Metrorail stations. The facilities are leased to WMATA through a direct financing lease. The bonds are payable as to principal and interest solely from revenues pledged to the Authority by the WMATA under the Facility Lease Agreement and by Prince George's County, Maryland under the 2004 Trust Agreement. The bonds issued in accordance with the provisions of the Trust Agreement and interest thereon do not constitute a debt or pledge of the faith and credit of the State of Maryland, the Maryland Department of Transportation, the Authority or Prince George's County but are payable solely from pledged revenue which the Authority will receive from WMATA in the form of direct financing lease payments.

Obligations Under Capital Leases -

Obligations of business-type activities under capital leases as of June 30, 2004, are as follows (amounts expressed in thousands).

Years Ending June 30,	State Lottery Agency
2005	\$1,527
2006	483
2007	440
2008	439
2009	439
Total minimum lease payments	3,328
Less: Imputed interest	196
Present value of net minimum lease payments	\$3,132

The Lottery has entered into lease agreements for certain on-line gaming system equipment and a computer system. As of June 30, 2004, assets acquired under leases and the related accumulated amortization totaled \$6,062,000 and \$3,402,000, respectively, and are included in capital assets in the Statement of Net Assets, Business-type Activities.

C. Notes and Revenue Bonds Payable - Component Units:

Higher Education -

Certain State higher education institutions have issued revenue bonds for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. Interest rates range from 1.7% to 6.9% on the revenue bonds. Since June 1992, the University System of Maryland (System) has issued serial notes payable to finance the acquisition of new equipment and to refinance the balance of amounts due under certain installment purchase agreements for equipment then in the possession of the System. Payments of principal and interest, at rates ranging from 5.8% to 6.1%, are to be made semiannually through 2024. The notes payable are callable, at the option of the System, at premiums of no more than 2.0% of the outstanding principal, beginning in 2005.

Debt service requirements to maturity, excluding the debt of the higher education foundations in the amount of \$1,814,000 are as follows (amounts expressed in thousands).

Years Ending June 30,	Notes Payable and Other Long-Term Debt		Revenue Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 1,824	\$ 4,948	\$ 50,796	\$ 49,073
2006	2,633	4,857	56,291	45,555
2007	1,907	4,733	59,525	43,166
2008	2,032	4,641	61,965	40,488

2009	2,179	4,540	64,414	37,738
2010-2014	12,863	20,940	276,049	143,074
2015-2019	4,663	18,343	247,175	77,846
2020-2024	67,643	14,411	145,890	24,009
2025-2029			16,070	5,089
2030-2032			12,035	1,172
Total	95,744	77,413	990,210	467,210
Accumulated accreted interest and other deferred costs	(13)		23,368	
Total	\$95,731	\$77,413	\$1,013,578	\$467,210

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

As of June 30, 2004, Morgan State University has \$10,270,000 of defeased debt outstanding, resulting from the refunding of the 1990 Revenue Bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

At June 30, 2004, investments were held by the trustee for St. Mary's College in the amount of \$1,439,000, and restricted investments were held for Morgan State University in the amount of \$31,706,000.

On August 1, 2003, St. Mary's College issued \$6,620,000 of Academic and Auxiliary Facilities Fees Subordinate Revenue Bonds, 2003 Series A. Of the 2003 Series A bond proceeds, \$4,375,000 was used to current refund the 1993 Series A Revenue Bonds, and \$2,066,000 was used to repay the U.S. Department of Education Loan. The current refunding of the Revenue Bonds reduced future debt service requirements by \$79,000 and resulted in an economic gain of \$149,000. The College capitalized \$179,000 of deferred debt issuance costs related to the 2003 Series A bonds. The Subordinate Revenue Bonds, 2003 Series A, bear interest from 2.5% to 4.9%. Annual maturities will increase until the final payment of \$350,000 becomes due in 2023. The bonds maturing after September 1, 2013 are callable at no premium.

At June 30, 2004, cash and cash equivalents in the amount of \$85,091,000 were held by the trustee for the System as unexpended proceeds of the Revenue Bonds and the Revolving Loan Program Bonds.

On July 10, 2003, the System issued \$246,155,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, including \$228,035,000 of 2003 Series A, and \$18,120,000 of taxable 2003 Series B, collectively, the 2003 Series A & B bonds. The 2003 Series A & B bonds consist of serial bonds maturing through the year ended June 30, 2024 with stated rates of interest from 1.8% to 5.0%, and were issued at a net premium of \$21,019,000. Of the proceeds of the 2003 Series A & B bonds, approximately \$105,500,000 will be used to fund new construction and renovation projects, while \$160,497,000 was used to advance refund an aggregate of \$153,070,000 of outstanding principal of the 1993 Series A, 1993 Series B, 1993 Series C, and 1995 Series A revenue bonds. The advance refunding of revenue bonds reduced future debt service requirements by \$12,415,000 and resulted in an economic gain (the present value of the difference between the debt service requirements on the old, refunded debt and the new debt) of \$11,893,000. An unamortized amount on refunding of \$7,762,000 (adjusted for unamortized discount or premium) was recorded as a result of the advance refunding and is being amortized over the period during which the refunded revenue bonds would have matured.

On August 8, 2003, the System issued \$65,000,000 of University System of Maryland Revolving Loan Program Bonds, 2003 Series A. The Revolving Loan Program Bonds, 2003 Series A consist of auction reset securities, i.e., interest is calculated on outstanding Revolving Loan Program Bonds using rates of interest determined through a periodic auction process. The Revolving Loan Program Bonds, 2003 Series A mature on July 1, 2023, and may be converted to fixed interest rate instruments at the option of the System. Approximately \$13,927,000 of the proceeds of the Revolving Loan Program Bonds, 2003 Series A will be used to fund new equipment acquisitions, while \$50,174,000 was used to current refund \$49,585,000 of Equipment Loan Program Obligations. The refunding debt, as well as the refunded debt, were variable note instruments and were redeemed dollar for dollar. Accordingly, no debt service savings can be calculated, and there was no economic gain or loss on the transaction. The Revolving Loan Program Bonds, 2003 Series A, bear interest at an auction reset security rate as determined periodically at the beginning of an auction period (initially 7 days, but convertible to auction periods of one day, 28 day, 35 day, 3 months, 6 months, or a special auction period of any duration of 7 to 1,092 days at the option of the System) determined from bids from participating broker-dealers collected by the Auction Agent.

On June 2, 2004, the System issued \$64,165,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, including \$35,835,000 of 2004 Series A and \$28,330,000 of 2004 Series B, collectively, the 2004 Series A & B bonds. The 2004 Series A & B bonds consist of serial bonds maturing through the year ended June 30, 2024 with stated rates of interest from 3.0% to 6.0% and were issued at a net premium of \$865,000. Approximately \$63,109,000 of the proceeds of the 2004 Series A & B bonds will be used to fund property acquisition, new construction and renovation projects, while \$1,605,000 was used to advance refund \$1,874,000 of outstanding principal of the 1992 Series C revenue bonds. The advance refunding of Revenue Bonds reduced future debt service requirements by \$1,276,000 and resulted in an economic gain (the present value of the difference between the debt service requirements on the old, refunded debt and the new debt) of \$897,000. An unamortized amount on refunding of \$265,000 (adjusted for unamortized discount or premium) was recorded as a result of the advance refunding and is being amortized over the period during which the refunded revenue bonds would have matured.

Obligations under capital leases of \$8,981,000 exist as of June 30, 2004, bearing interest at annual rates ranging from 4.8% to 6.8%.

Maryland Stadium Authority (Authority) - Revenue Bonds:

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2005	\$ 11,760	\$ 18,721
2006	12,915	18,628
2007	13,940	17,755
2008	14,925	16,933
2009	15,210	16,087
2010-2014	92,500	65,258
2015-2019	93,540	35,931
2020-2024	53,575	10,731
2025-2027	12,590	1,250
Total	320,955	201,294
Unamortized discount net of unamortized premium . . .	(6)	
Total	\$320,949	\$201,294

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, convention center expansions in Baltimore City and the Town of Ocean City and certain other facilities. The outstanding debt is to be repaid through capital lease payments from the State, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 2004, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium	\$135,126	3.0% to 5.7%	December 15, 2019
Football Stadium	81,306	4.7% to 5.8%	March 1, 2026
Baltimore City Convention Center	39,695	5.3% to 5.9%	December 15, 2014
Ocean City Convention Center	13,161	4.8% to 5.4%	December 15, 2015
Hippodrome Performing Arts Center	19,744	5.0% to 6.3%	June 15, 2022
Montgomery County Conference Center	23,187	2.0% to 5.0%	June 15, 2024
Camden Station	8,730	3.0% to 5.2%	December 15, 2024
Total	\$320,949		

On March 2, 2004, the Authority issued taxable Camden Station Lease Revenue Bonds, Series 2004, to renovate Camden Station located at Camden Yards. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 3.0% to 5.2% per annum. The bonds mature in varying amounts through December 15, 2024.

12. Insurance:

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Non-incremental claims adjustment expenses have been included as part of the liability for claims and adjustments for the general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4.0% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the following fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2004 were as follows (amounts expressed in thousands).

	Beginning-of Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of Fiscal-Year Liability	Amount Due Within One Year
Property, casualty and general liability	\$ 16,314	\$ 13,582	\$ 11,315	\$ 18,581	\$ 6,224
Workers' compensation	211,517	53,968	43,718	221,767	34,374
Employee health benefits	<u>67,076</u>	<u>672,100</u>	<u>672,748</u>	<u>66,428</u>	<u>66,428</u>
Total self-insurance costs	\$294,907	\$739,650	\$727,781	\$306,776	\$107,026

As of June 30, 2004, the Program held \$102,401,000, in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2003 were as follows (amounts expressed in thousands).

	Beginning-of Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of Fiscal-Year Liability	Amount Due Within One Year
Property, casualty and general liability	\$ 13,375	\$ 14,025	\$ 11,086	\$ 16,314	\$ 6,003
Workers' compensation	194,690	54,478	37,651	211,517	32,785
Employee health benefits	<u>58,216</u>	<u>605,462</u>	<u>596,602</u>	<u>67,076</u>	<u>67,076</u>
Total self-insurance costs	\$266,281	\$673,965	\$645,339	\$294,907	\$105,864

As of June 30, 2003, the Program held \$115,242,000, in cash and investments designated for payments of these claims.

13. Fund Equity:

The unrestricted deficit for governmental activities on the government-wide statement of net assets is \$1,516,464,000. This is due to the fact that the State incurs debt for purposes of capital acquisition and construction on behalf of local governments and private organizations. Since the incurrence of this debt does not result in capital assets of the State, the debt is not reflected in the net asset category, invested in capital assets, net of related debt, but rather in the unrestricted net assets category. At June 30, 2004, the State has reported outstanding general obligation bonds and capital leases applicable to these non-State projects of \$2,385,648,000. Without State financing for these capital assets, it would have reported positive unrestricted net assets of governmental activities in the amount of \$869,184,000.

A portion of the general fund's fund balance, in the amount of \$513,026,000 as of June 30, 2004, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of the Economic Development Opportunities Program Account, Catastrophic Event Account, Revenue Stabilization Account and Joseph Fund Account with balances as of June 30, 2004, of \$9,054,000, \$7,375,000, \$496,584,000, and \$13,000, respectively. The Economic Development Opportunities Program Account is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Account is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases. The purpose of the Joseph Fund Account is to set aside reserves in time of economic prosperity to meet the emerging needs of economically disadvantaged citizens of the State.

In addition, a portion of the general fund's fund balance, in the amount of \$223,205,000, representing restricted revenue carry forwards, has been reserved. The largest restricted revenue carry forwards are related to health and mental hygiene programs, \$90,074,000; natural resources and recreation programs, \$39,025,000; judicial programs, \$29,729,000; environmental programs, \$28,822,000; and public safety programs, \$16,711,000. Such amounts are reserved because the use of the funds is legally restricted for a specific purpose.

A portion of the other governmental funds' fund balance is reserved for sinking fund deposits of \$1,891,000, set aside to redeem the 2002 Qualified Zone Academy Bonds due in 2016. A portion of the general fund unreserved fund balance is designated for fiscal year 2005 appropriations in the amount of \$127,127,000. Portions of the other governmental funds' unreserved fund balance are designated for payment of the debt service on General Obligation and Department of Transportation long-term debt in the amounts of \$55,118,000 and \$18,150,000, respectively. The undesignated deficit balance in other governmental funds of \$351,770,000 is due to the undesignated deficit fund balance in the non-major capital projects fund which is the result of the reservation for encumbrances of \$410,853,000 for future construction projects.

14. Segment Information:

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding; housing loans of the Community Development Administration and water quality loans of the Maryland Water Quality Administration.

The Community Development Administration (CDA) has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. The bond indentures require the CDA to separately account for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater and drinking water projects. These bonds are payable solely from, and secured by, the revenue, money or property of the Maryland Water Quality Administration. The bond indentures require separate accounting for the identifiable activity's revenues, expenses, gains and losses, assets and liabilities.

Summary financial information for the two loan programs is presented below.

Condensed Statement of Net Assets (Expressed in Thousands)		
	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current restricted assets	\$ 620,001	\$ 30,404
Non-current restricted assets	2,023,755	138,334
Total assets	<u>\$2,643,756</u>	<u>\$168,738</u>
Liabilities payable from restricted assets:		
Due to other funds	\$ 1,426	
Current liabilities	383,384	\$ 11,332
Non-current liabilities	<u>1,939,064</u>	<u>88,527</u>
Total liabilities	2,323,874	99,859
Net Assets:		
Restricted	<u>319,882</u>	<u>68,879</u>
Total net assets	<u>\$ 319,882</u>	<u>\$ 68,879</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (Expressed in Thousands)		
	Community Development Administration	Maryland Water Quality Administration
Operating income (expenses):		
Interest on loan income	\$ 100,604	\$ 5,774
Interest and other investment income	17,729	1,088
Interest expense	(113,643)	(6,105)
Other operating revenues	6,630	(51)
Other operating expenses	<u>(21,385)</u>	
Operating income (expense)	(10,065)	706
Non-operating revenues (expenses):		
Interest and other investment income		
Interest expense		
Other non-operating revenue (expenses)	(689)	(6,555)
Change in net assets	<u>(10,754)</u>	<u>(5,849)</u>
Beginning net assets	330,636	74,728
Ending net assets	<u>\$319,882</u>	<u>\$68,879</u>

Condensed Statement of Cash Flows (Expressed in Thousands)		
	Community Development Administration	Maryland Water Quality Administration
Net cash provided (used) by:		
Operating activities	\$ 296,375	\$19,027
Non-capital financing activities	(448,164)	(21,942)
Investing activities	7,042	2,494
Beginning cash and cash equivalents	375,087	433
Ending cash and cash equivalents	\$230,340	\$ 12

15. Retirement Benefits:

State Retirement and Pension System of Maryland (System):

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 135 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202.

Plan Description:

The System, which is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the System. All State employees and employees of participating entities are covered by the plans.

"Retirement System" - retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" - retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completion of 5 years of service. A member terminating employment before attaining retirement age, but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with full benefits after attaining the age 62, or after completing 30 years of Service Credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. Legislation enacted during the 1998 legislative session changed certain provisions of the Pension Systems and provided for a contributory pension system and a non-contributory pension system. A member of the contributory pension system will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three consecutive year average salary multiplied by the number of years of service credit after July 1, 1998. The annual benefit for a non-contributory pension system member is equal to 0.8% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member of either type of pension system may retire with reduced benefits after attaining age 55 and completing 15 years of service.

The annual retirement allowance for a State Police member is equal to 2.55% of the member's highest three-year average salary multiplied by each year of service up to a maximum of 28 years. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average salary multiplied by each year of service up to a maximum of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement. Recent legislation and Internal Revenue Service approval has created a Deferred Retirement Option Program (DROP) for members of the State Police and Law Enforcement Officers System. This program allows for a member to retire from the system, accrue retirement earnings, which are held in a separate account, and continue employment until a pre-determined date.

Funding Policy:

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages, 7.0% or 5.0% depending on the retirement plan selected. Members of the contributory pension system are required to contribute to the System 2.0% of their regular salaries and wages. Members of the non-contributory pension system are required to contribute to the System 5.0% of their regular salaries and wages that exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 4.0% of their regular salaries and wages. All contributions are deducted from each member's salary, and wage payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. Effective July 1, 2002, State law provides that the contribution rates may be more or less than the actuarially determined rates for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. Contributions to these Systems are based on the Corridor Funding Method which establishes a budgetary contribution rate. During fiscal year 2004, the State paid \$586,363,000, of the required contribution totaling \$667,172,000, which was 8.09% of covered payroll. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll.

Annual Pension Cost and Net Pension Obligation:

The annual pension cost and net pension obligation as of June 30, 2004, are as follows (amounts expressed in thousands).

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System	State Police Retirement System	Judges' Retirement System	Law Enforcement Officers' Pension System
Annual required contribution	\$451,624	\$172,870	\$14,673	\$5,827	\$22,178
Interest on net pension obligation	1,976	2,711			
Actuarial adjustment to annual required contribution	(1,220)	(1,673)			
Annual pension cost	452,380	173,908	14,673	5,827	22,178
Contributions made	417,971	125,714	14,673	5,827	22,178
Increase (decrease) in net pension obligation	34,409	48,194			
Net pension obligation, beginning of year	24,704	33,889			
Net pension obligation, end of year	\$ 59,113	\$ 82,083	-	-	-

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ended June 30,		
	2004	2003	2002
Teachers' Retirement and Pension System	\$452,380	\$412,924	\$360,993
Employees' Retirement and Pension System	173,908	159,200	142,218
State Police Retirement System	14,673	4,850	4,907
Judges' Retirement System	5,827	14,851	13,375
Law Enforcement Officers Pension System	22,178	23,394	20,360

Plan	Percentage of Annual Pension Cost Contributed		
	Fiscal Year Ended June 30,		
	2004	2003	2002
Teachers' Retirement and Pension System	93%	94%	100%
Employees' Retirement and Pension System	73	79	100
State Police Retirement System	100	100	100
Judges' Retirement System	100	100	100
Law Enforcement Officers Pension System	100	100	100

Plan	Net Pension Obligation		
	Fiscal Year Ended June 30,		
	2004	2003	2002
Teachers' Retirement and Pension System	\$59,113	\$24,704	\$ -
Employees' Retirement and Pension System	82,083	33,889	-
State Police Retirement System	-	-	-
Judges' Retirement System	-	-	-
Law Enforcement Officers Pension System	-	-	-

The fiscal year 2004 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2004. The fiscal year 2004 annual pension cost was determined as a part of an actuarial valuation as of June 30, 2002. The significant actuarial assumptions listed below were used for all plans.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing (difference in experienced and assumed return)
Rate of return on investments	7.75%
Rate of salary increase	Varies
Projected inflation rate	3.0%; general wage inflation is 4% which includes the 3.0% inflation assumption.
Post retirement benefit increase	Varies
Amortization method	Level Percent of Payroll
Remaining amortization period	16 years as of June 30, 2004 for prior UAAL
New layer as of June 30, 2001	22 years as of June 30, 2004 for new UAAL
New layer as of June 30, 2002	23 years as of June 30, 2004 for new UAAL
New layer as of June 30, 2003	24 years as of June 30, 2004 for new UAAL
New layer as of June 30, 2004	25 years as of June 30, 2004 for new UAAL
Status of period (Open or Closed)	Closed

Maryland Transit Administration Pension Plan (Plan):

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 2004, the Administration's covered and total payroll was \$126,169,000. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan. The Plan prepares separately audited financial statements which can be obtained from the Maryland Transit Administration, 6 St. Paul Street, Baltimore, Maryland 21202.

Plan Description:

The Plan provides retirement, normal and early, death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.4% (1.3% prior to September 8, 2002) of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2004, membership in the Plan includes 1,097 retirees and beneficiaries currently receiving benefits, 415 terminated members entitled to, but not yet receiving, benefits and 2,788 current active members.

Funding Policy:

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$19,187,000 (15.2% of covered payroll) for fiscal year 2004 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2003. This amount consisted of \$3,348,000 normal cost and \$15,839,000 amortization of the actuarial accrued liability (2.7% and 12.5%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities, as provided by law, is 15 years from June 30, 2004.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations. The computation of the annual required contribution for fiscal year 2004 was based on the same actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension costs for the fiscal years ending June 30, 2004, 2003, and 2002 were \$19,187,000, \$16,545,000 and \$15,200,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ended June 30, 2004, 2003 and 2002 for the Plan. Accordingly, the Administration's net pension obligation was zero as of June 30, 2004, 2003 and 2002 for the Plan.

The fiscal year 2004 net pension obligations were determined as a part of an actuarial valuation as of June 30, 2004. The fiscal year 2004 annual pension cost was determined as a part of an actuarial valuation as of June 30, 2003. The significant actuarial assumptions listed below were used for the Plan.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing
Rate of return on investments	8.0% Compounded per annum
Projected inflation rate	5.0%
Rate of salary increase	3.0% Compounded per annum
Postretirement benefit increase	3.0% of original benefit amount
Amortization method	Level dollar annual installments
Remaining amortization period	15 years from June 30, 2004 for prior UAAL
New amortization period	23 years from June 30, 2004 for new UAAL
Status of period (Open or Closed)	Closed

During fiscal year 2004, there were no changes in actuarial assumptions or benefit provisions from 2003 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term. Effective July 1, 2002, the Administration implemented two changes to the funding procedures: an increase in the asset smoothing factor from three to five years and an increase in the amortization period for funding future gains and losses to a 25 year period for each year's gain or loss.

Post Retirement Benefits:

The State also provides, in accordance with State Merit System Laws, post employment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 85% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post employment health care benefits, which is based on health care insurance charges for current employees. During fiscal year 2004, these benefits paid amounted to \$135,806,000. Costs are recognized as they are paid. There are 32,451 participants currently receiving benefits.

Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. For each fiscal year of the State beginning after June 30, 1999, the maximum amount contributed to this plan for each participant is \$600. A participant may receive more than this amount in matching contributions during a plan year, but may not exceed the maximum \$600 contribution for any State fiscal year. The \$600 maximum contribution for each participant was reduced to \$500 for the fiscal year beginning July 1, 2002. An employee's interest in his/her account is fully vested at all times. The State's contribution for the plan year ending December 31, 2003, was \$2,486,000. The Governor proposed and the State Legislature approved the elimination of the State's matching contribution to the Plan for each participant for the fiscal years beginning July 1, 2003 and July 1, 2004. The match program continues to be established and funded in statute.

16. Commitments:

The State's governmental funds lease office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2004 were approximately \$58,355,000. Future minimum rental payments for noncancelable leases of more than one year as of June 30, 2004, are as follows (amounts expressed in thousands).

Years ending June 30,	Amounts
2005	\$ 56,122
2006	51,041
2007	45,245
2008	38,941
2009	31,869
2010-2014	76,056
2015-2019	13,517
2020-2024	13,084
2025-2029	13,084
2030-2034	<u>2,617</u>
Total	\$341,576

As of June 30, 2004, the governmental funds, other than the Department of Transportation, had commitments of approximately \$203,509,000 and \$15,289,000, respectively, for the completion of projects under construction and for service contracts.

As of June 30, 2004, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$2,919,718,000 and \$146,000,000, respectively, for construction of highway and mass transit facilities.

Approximately 35% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various cancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30,	Amounts
2005	\$ 122,021
2006	99,211
2007	96,129
2008	86,421
2009	62,176
2010-2014	<u>244,024</u>
Total	\$709,982

The cost and accumulated depreciation of the assets as of June 30, 2004, are \$940,561,000 and \$248,235,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately \$102,978,000 for the year ended June 30, 2004, including contingent rentals of approximately \$2,028,000.

As of June 30, 2004, the Maryland State Lottery Agency had commitments of approximately \$74,712,000, for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 2004, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of \$58,528,000 in additional loans, i.e., the Maryland Economic Development Assistance Authority Fund, \$28,203,000, Maryland Economic Development Opportunities Program Fund, \$17,500,000, Smart Growth Economic Development Infrastructure Fund, \$12,250,000, and Maryland Economic Adjustment Fund, \$575,000. The State Funded Loan Programs and Maryland Water Quality Administration, enterprise fund loan programs, committed to provide \$50,534,000 and \$167,371,000 in loans, respectively. The Community Development Administration, also an enterprise fund loan program, has \$311,445,000 of revenue bonds outstanding that are not included in the financial statements of the Administration because the bonds are not guaranteed by the State or any other program of the State or any political subdivision. The revenue bonds are secured solely by the individual multi-family project properties, related revenues, applicable credit enhancements, or investments equal to the debt outstanding.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay \$2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. Payments for fiscal years 2003 and 2004 were required and paid.

As of June 30, 2004, the higher education fund had commitments of approximately \$259,735,000 for the completion of projects under construction.

17. Contingencies:

The State is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2004, economic development loan programs were contingently liable to financial institutions for \$7,051,000 for the repayment of loans for small businesses. Non-major enterprise funds were contingently liable as insurer of \$414,473,000 of \$835,022,000 mortgage loans made by public and private lenders. Non-major component units were contingently liable as insurers of \$46,642,000 of \$514,356,000 economic development and growth bonds issued by financial institutions.

As of June 30, 2004, there were approved economic development bonds pending settlement which were insured by non-major component units for \$6,596,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2004, the State estimates that no material liabilities will result from such audits.

18. Tobacco Settlement:

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that for each of fiscal years 2003 through 2006, at least 25% of the appropriations shall be made for the Maryland Medical Assistance Program (Medicaid). During the 2003 legislative session, legislation was enacted requiring that .15% of the fund be appropriated for enforcing the escrow requirements for nonparticipating tobacco product manufacturers. Transfers of \$178,916,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2004 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2004 was \$149,941,000. Pursuant to a settlement between the State and legal counsel resolving all disputes, \$30,000,000 was disbursed to legal counsel in fiscal year 2004.

It is estimated that the payments made to the State pursuant to the Master Settlement through fiscal year 2010 will total \$1.7 billion, of which \$149,873,000 will go to outside counsel. The actual amount paid each year, however, will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive \$46,030,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

19. Landfill Closure and Postclosure Care Costs:

State and Federal laws require the Maryland Environmental Service (the Service) to cover the Midshore Regional Landfill (Midshore), of which the current cell is expected to close in January 2008, and to perform certain maintenance and monitoring functions at the Midshore and Easton Landfill (Easton) sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service reports a portion of these closure and postclosure care costs as a liability based upon the estimated useful life of the landfill. Midshore's current cells are approximately 80% filled as of June 30, 2004. Total closure and postclosure care costs for the landfill is currently estimated to be \$8,703,000, as determined through engineering studies and \$6,936,000 has been recognized as a liability on the June 30, 2004 Combining Statement of Net Assets, Non-Major Component Units. The total current cost of landfill closure and postclosure care is an estimate subject to changes resulting from inflation, deflation technology or changes in applicable laws and regulations.

A receivable from project participants corresponding to the accrued liability has also been recorded.

The Service will construct and bring on line by January 2008, an additional cell in order to extend the life of the landfill to December 2010. Closure and postclosure cost will be adjusted in the future to include this increase in capacity.

Under Federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2003. The Service expects to satisfy these requirements as of June 30, 2004, using the same criteria.

REQUIRED SUPPLEMENTARY INFORMATION

(Expressed in Thousands)

	General Fund				Special Fund				Federal Fund			
	Budget Amounts		Actual Amounts	Variance Positive (Negative)	Budget Amounts		Actual Amounts	Variance Positive (Negative)	Budget Amounts		Actual Amounts	Variance Positive (Negative)
	Original Budget	Final Budget			Original Budget	Final Budget			Original Budget	Final Budget		
Revenues:												
Income taxes	\$5,400,846	\$5,284,329	\$5,417,671	\$133,342	\$107,579	\$101,979	\$108,232	\$6,253				
Sales and use taxes	2,830,379	2,865,389	2,921,794	56,405	23,700	23,800	23,266	(534)				
Other taxes	868,692	826,352	864,136	37,784	2,060,839	2,135,704	2,249,281	113,577				
Licenses and fees	134,436	164,502	182,390	17,888	518,660	523,107	531,302	8,195				
Charges for services	277,718	266,860	281,480	14,620	348,815	870,303	1,044,811	174,508				
Interest and other investment income	38,076	27,101	33,065	5,964	13,284	8,534	10,396	1,862				
Other	532,602	535,918	516,039	(19,879)	871,016	717,327	677,752	(39,575)				
Federal revenue									\$5,462,179	\$6,297,649	\$5,582,141	\$(715,508)
Total revenues	10,082,749	9,970,451	10,216,575	246,124	3,943,893	4,380,754	4,645,040	264,286	5,462,179	6,297,649	5,582,141	(715,508)
Expenditures and encumbrances by major function:												
Payments of revenue to civil divisions of the State.	141,096	136,821	136,761	60	532,819	536,819	536,819					
Public debt												
Legislative	67,059	67,059	55,931	11,128								
Judicial review and legal	361,882	360,181	338,588	21,593	56,914	70,766	60,989	9,777	3,350	4,104	3,876	228
Executive and administrative control	143,079	132,828	118,546	14,282	78,963	173,773	127,539	46,234	109,666	241,563	145,181	96,382
Financial and revenue administration	151,854	147,821	142,737	5,084	68,263	71,124	67,772	3,352				
Budget and management	47,051	43,663	30,227	13,436	26,715	20,848	12,440	8,408				
Retirement and pension					26,668	26,803	20,904	5,899				
General services	52,196	48,679	45,662	3,017	1,728	1,728	1,424	304	755	781	766	15
Transportation and highways					2,342,541	2,586,702	2,397,959	188,743	755,284	853,505	703,450	150,055
Natural resources and recreation	81,145	77,167	72,577	4,590	109,164	112,190	72,912	39,278	33,997	38,829	26,419	12,410
Agriculture	28,966	28,271	25,396	2,875	33,786	41,300	24,411	16,889	9,850	10,801	7,001	3,800
Health, hospitals and mental hygiene	2,979,802	2,869,772	2,863,896	5,876	298,495	316,111	288,236	27,875	2,450,223	2,759,783	2,712,706	47,077
Human resources	525,074	555,613	547,795	7,818	85,123	101,807	98,242	3,565	961,284	1,060,679	916,677	144,002
Labor, licensing and regulation	21,383	26,081	24,183	1,898	13,452	25,190	18,391	6,799	138,114	150,263	138,152	12,111
Public safety and correctional services	784,115	784,800	767,082	17,718	126,498	140,950	126,151	14,799	10,231	11,808	9,625	2,183
Public education	4,804,243	4,739,293	4,677,999	61,294	56,107	57,710	39,815	17,895	940,631	1,000,283	737,945	262,338
Housing and community development	20,681	19,644	15,286	4,358	76,122	79,699	45,254	34,445	192,169	192,169	165,973	26,196
Business and economic development	67,361	64,990	55,398	9,592	97,595	98,385	28,445	69,940	558	609	576	33
Environment	57,835	55,300	44,857	10,443	312,167	315,189	125,168	190,021	66,597	72,519	25,456	47,063
Juvenile services	165,661	170,889	170,883	6	248	418	202	216	14,769	16,269	15,635	634
State police	226,564	138,415	135,065	3,350	57,304	60,021	53,844	6,177	897	109,880	95,530	14,350
State reserve fund												
Reversions	(35,000)	(37,180)		(37,180)								
Total expenditures and encumbrances	10,692,047	10,440,107	10,278,869	161,238	4,400,672	4,837,533	4,146,917	690,616	5,688,375	6,523,845	5,704,968	818,877
Excess of revenues over (under) expenditures	(609,298)	(469,656)	(62,294)	407,362	(456,779)	(456,779)	498,123	954,902	(226,196)	(226,196)	(122,827)	103,369

STATE OF MARYLAND

**Reconciliation of the Budgetary General and Special Fund, Fund Balances
to the GAAP General and Special Revenue Fund, Fund Balances**

June 30, 2004

(Expressed in Thousands)

	<u>General</u>	<u>Special</u>
Amount in budgetary funds, fund balance (page 83)	\$1,114,833	\$1,163,146
Budgetary special funds reclassified to the general fund	457,436	(457,436)
Budgetary special funds reclassified to other funds		(380,560)
Other non-budgetary funds reclassified to governmental funds	45,222	2,459
Total of budgetary fund balances reclassified into the governmental funds fund structure	<u>1,617,491</u>	<u>327,609</u>
Accounting principle differences		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	23,863	127
Investments	(3,984)	
Taxes receivable		2,471
Intergovernmental receivables	(8,687)	
Due from components units	3,020	
Other accounts receivable	8,651	10,165
Loans receivable	30	
Inventories	19,615	54,810
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Accounts payable and accrued liabilities	(137,095)	(40,473)
Accounts payable to political subdivisions	(215)	(593)
Due to other funds	(5,121)	
Deferred revenue	(17,763)	
Accrued self insurance costs	(10,368)	1,483
Financial statement governmental funds' fund balances, June 30, 2004 (page 28)	<u>\$1,489,437</u>	<u>\$ 355,599</u>

See accompanying Notes to Required Supplementary Information.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for
Pension and Retirement System**
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll (1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll (2)
TEACHERS RETIREMENT AND PENSION SYSTEM						
2004	\$20,155,415	\$21,724,178	\$(1,568,763)	92.78%	\$4,543,444	(34.53)%
2003	19,626,676	21,152,063	(1,525,387)	92.79	4,522,202	(33.73)
2002	19,424,000	21,117,046	(1,693,046)	91.98	4,323,053	(39.16)
2001	19,182,750	20,126,943	(944,193)	95.31	3,994,201	(23.64)
2000	18,419,539	18,994,294	(574,755)	96.97	3,729,845	(15.41)
1999	16,634,932	18,036,251	(1,401,319)	92.23	3,550,614	(39.47)
EMPLOYEES RETIREMENT AND PENSION SYSTEM						
2004	\$11,514,655	\$12,621,578	\$(1,106,923)	91.23%	\$3,337,542	(33.17)%
2003	11,244,008	12,083,197	(839,189)	93.05	3,424,054	(24.51)
2002	11,162,265	11,385,749	(223,484)	98.04	3,356,671	(6.66)
2001	11,021,958	10,789,907	232,051	102.15	3,084,859	7.52
2000	10,593,917	9,907,683	686,234	106.93	2,829,250	24.25
1999	9,557,556	9,203,218	354,338	103.85	2,613,659	13.56
STATE POLICE RETIREMENT SYSTEM						
2004	\$1,287,981	\$1,200,605	\$87,376	107.28%	\$76,445	114.30%
2003	1,285,201	1,062,383	222,818	120.97	80,839	275.63
2002	1,300,402	1,030,575	269,827	126.18	83,142	324.54
2001	1,305,556	993,847	311,709	131.36	79,383	392.66
2000	1,269,418	911,273	358,145	139.30	79,388	451.13
1999	1,150,559	850,041	300,518	135.35	75,602	397.50
JUDGES RETIREMENT SYSTEM						
2004	\$250,272	\$312,285	\$(62,013)	80.14%	\$32,937	(188.28)%
2003	240,207	279,008	(38,801)	86.09	33,167	(116.99)
2002	234,558	267,532	(32,974)	87.67	31,824	(103.61)
2001	229,022	254,913	(25,891)	89.84	30,554	(84.74)
2000	216,374	236,446	(20,072)	91.51	30,147	(66.58)
1999	192,909	231,394	(38,485)	83.37	29,577	(130.12)
LAW ENFORCEMENT OFFICERS' PENSION SYSTEM						
2004	\$271,587	\$454,815	\$(183,228)	59.71%	\$77,369	(236.82)%
2003	225,111	382,287	(157,176)	58.89	69,470	(226.25)
2002	191,100	312,058	(120,958)	61.24	65,916	(183.50)
2001	165,678	290,504	(124,826)	57.03	60,438	(206.54)
2000	140,034	214,822	(74,788)	65.19	50,302	(148.68)
1999	102,040	140,677	(38,637)	72.53	36,435	(106.04)
LOCAL FIRE AND POLICE SYSTEM						
2004	\$4,747	\$12,243	\$(7,496)	38.77 %	\$1,744	(429.82)%
2003	10,262	15,663	(5,401)	65.52	4,686	(115.26)
2002	10,938	18,324	(7,386)	59.69	7,188	(102.75)
2001	9,814	13,828	(4,014)	70.97	5,601	(71.67)
2000	10,099	15,349	(5,250)	65.80	6,938	(75.67)
1999	8,583	13,799	(5,216)	62.20	6,530	(79.88)
TOTAL OF ALL PLANS						
2004	\$33,484,657	\$36,325,704	\$(2,841,047)	92.18%	\$8,069,481	(35.21)%
2003	32,631,465	34,974,601	(2,343,136)	93.30	8,134,418	(28.81)
2002	32,323,263	34,131,284	(1,808,021)	94.70	7,867,794	(22.98)
2001	31,914,778	32,469,942	(555,164)	98.29	7,255,036	(7.65)
2000	30,649,381	30,279,867	369,514	101.22	6,725,870	5.49
1999	27,646,579	28,475,380	(828,801)	97.09	6,312,417	(13.13)

(1) Covered payroll includes the payroll cost of those participants for which the State pays the retirement contribution but does not pay the participants' payroll cost. Starting with the 7/1/99 disclosure, covered payroll was reported using an adjusted payroll figure. Starting with the year June 30, 2002, disclosure, the covered payroll has been restated to show actual salaries reported for valuation purposes, prior to any adjustments.

(2) Percentage of (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

STATE OF MARYLAND

**Required Supplemental Schedule of Funding Progress for
Maryland Transit Administration Pension Plan**
(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2004	\$95,219	\$260,422	\$165,203	36.6 %	\$126,169	130.9 %
2003	86,642	234,460	147,818	37.0	128,393	115.1
2002	81,557	224,412	142,855	36.3	122,977	116.2

STATE OF MARYLAND

Notes to Required Supplementary Information For the Year Ended June 30, 2004

1. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. The budgetary Federal fund revenue and expenditures are included in the GAAP General and Special Funds as federal revenues and expenditures by function. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2004, the General Assembly approved a net increase in General Fund appropriations of \$90,243,000. Appropriations for programs funded in whole or in part from the special or federal funds may permit expenditures in excess of original special or federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller, provides a more comprehensive accounting of activity on the basis of budgeting at the legal level of budgetary control.

The original and amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Schedule of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - for the year ended June 30, 2004. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2004, is provided in the "Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances" immediately following the budgetary schedule.



COMBINING FINANCIAL STATEMENTS AND SCHEDULES

STATE OF MARYLAND

Non-Major Governmental Funds

Debt Service Funds

General Obligation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations are accounted for in the general obligation bonds debt service fund.

Transportation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on transportation long-term debt obligations are accounted for in the transportation bonds debt service fund.

Capital Projects Fund

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from the State's general fund. The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances.

STATE OF MARYLAND

Combining Balance Sheet
Non-major Governmental Funds
June 30, 2004
(Expressed in Thousands)

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds	Bonds		Funds
Assets:				
Cash and cash equivalents.	\$48,999			\$ 48,999
Cash and cash equivalents - restricted		\$ 1,981		1,981
Cash with fiscal agent - restricted	3,057	606		3,663
Investments		8,169		8,169
Taxes receivable, net	6,707			6,707
Other receivables	40			40
Due from other funds		8,000	\$ 84,952	92,952
Loans and notes receivable, net	11,526			11,526
Loans and notes receivable - restricted			8,112	8,112
Total assets	<u>\$70,329</u>	<u>\$18,756</u>	<u>\$ 93,064</u>	<u>\$ 182,149</u>
Liabilities:				
Vouchers payable			\$ 66,284	\$ 66,284
Accounts payable and accrued liabilities.			30,135	30,135
Accounts payable to political subdivisions			2,718	2,718
Deferred revenue	\$ 1,114			1,114
Matured bonds and interest coupons payable	1,182	\$ 606		1,788
Total liabilities	<u>2,296</u>	<u>606</u>	<u>99,137</u>	<u>102,039</u>
Fund balances:				
Reserved for:				
Encumbrances			410,853	410,853
Loans and notes receivable	11,024		8,112	19,136
Debt service	1,891			1,891
Unreserved:				
Undesignated (deficit)	55,118	18,150	(425,038)	(351,770)
Total fund balances (deficit)	<u>68,033</u>	<u>18,150</u>	<u>(6,073)</u>	<u>80,110</u>
Total liabilities and fund balances	<u>\$70,329</u>	<u>\$18,756</u>	<u>\$ 93,064</u>	<u>\$ 182,149</u>

STATE OF MARYLAND

**Combining Statement of Revenues
Expenditures, Other Sources and Uses of
Financial Resources and Changes in Fund Balances
Non-major Governmental Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)**

	Debt Service Funds		Capital	Total
	General	Transportation	Projects	Non-major
	Obligation	Bonds	Fund	Governmental
	Bonds			Funds
Revenues:				
Other taxes	\$472,097			\$ 472,097
Interest and other investment income	978	\$ (15)	\$ 2,569	3,532
Other	264	165	609	1,038
Total revenues	473,339	150	3,178	476,667
Expenditures:				
Education			163,533	163,533
Aid to higher education			237,698	237,698
Intergovernmental			225,983	225,983
Capital outlays			106,702	106,702
Debt service:				
Principal retirement	330,215	94,710		424,925
Interest	205,716	41,311		247,027
Bond issuance costs			1,795	1,795
Total expenditures	535,931	136,021	735,711	1,407,663
Deficiency of revenues under expenditures	(62,592)	(135,871)	(732,533)	(930,996)
Other sources (uses) of financial resources :				
Bonds issued			500,000	500,000
Bond premium		16,000	52,615	68,615
Transfers in	88,712	135,252	26,694	250,658
Transfers out			(130,225)	(130,225)
Total other sources of financial resources	88,712	151,252	449,084	689,048
Net change in fund balances	26,120	15,381	(283,449)	(241,948)
Fund balances, July 1, 2003	41,913	2,769	277,376	322,058
Fund balances, June 30, 2004	\$ 68,033	\$ 18,150	\$ (6,073)	\$ 80,110

STATE OF MARYLAND

Non-major Enterprise Funds

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The non-major enterprise funds consist of the economic development insurance programs of the Department of Housing and Community Development and State Use Industries, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Enterprise Funds

June 30, 2004

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Assets:			
Current assets:			
Cash and cash equivalents		\$ 10	\$ 10
Other accounts receivable		4,228	4,228
Due from other funds	\$ 3,775	12,096	15,871
Inventories		6,199	6,199
Loans and notes receivable, net	136		136
Other assets	3,132	222	3,354
Current restricted assets:			
Due from other funds	96,089		96,089
Total current assets	103,132	22,755	125,887
Non-current assets:			
Investments	822		822
Loans and notes receivable, net	577		577
Capital assets (net of accumulated depreciation):			
Structures and improvements		444	444
Equipment		4,527	4,527
Infrastructure		99	99
Total non-current assets	1,399	5,070	6,469
Total assets	104,531	27,825	132,356
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	286	1,703	1,989
Accrued insurance and loan losses	14,946		14,946
Other liabilities	520	448	968
Deferred revenue	1,465	270	1,735
Total current liabilities	17,217	2,421	19,638
Non-current liabilities:			
Other liabilities	953	366	1,319
Total non-current liabilities	953	366	1,319
Total liabilities	18,170	2,787	20,957
Net Assets:			
Invested in capital assets, net of related debt		5,070	5,070
Restricted for insurance programs	96,089		96,089
Unrestricted (deficit)	(9,728)	19,968	10,240
Total net assets	\$ 86,361	\$25,038	\$111,399

STATE OF MARYLAND

**Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)**

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Operating revenues:			
Charges for services and sales	\$ 3,509	\$35,672	\$ 39,181
Interest on loan income	604		604
Other	7		7
Total operating revenues.	4,120	35,672	39,792
Operating expenses:			
Cost of sales and services		28,038	28,038
General and administrative.	3,057	4,644	7,701
Depreciation and amortization		1,130	1,130
Reduction in provision for insurance and loan losses.	(7,968)		(7,968)
Total operating expenses	(4,911)	33,812	28,901
Operating income.	9,031	1,860	10,891
Nonoperating revenues:			
Restricted investment income	1,218		1,218
Other		10	10
Total nonoperating revenues	1,218	10	1,228
Income before transfers	10,249	1,870	12,119
Transfers out.		(2,000)	(2,000)
Change in net assets	10,249	(130)	10,119
Total net assets - beginning	76,112	25,168	101,280
Total net assets - ending	\$86,361	\$25,038	\$111,399

STATE OF MARYLAND

Combining Statement of Cash Flows

Non-major Enterprise Funds

For the Year June 30, 2004

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Cash flows from operating activities:			
Receipts from customers	\$ 2,961	\$ 36,773	\$ 39,734
Payments to suppliers		(22,435)	(22,435)
Payments to employees	(2,611)	(11,106)	(13,717)
Other receipts (payments)	(1,568)	36	(1,532)
Net cash provided (used) by operating activities	(1,218)	3,268	2,050
Cash flows from noncapital financing activities:			
Transfers out		(2,000)	(2,000)
Net cash used by noncapital financing activities		(2,000)	(2,000)
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(1,268)	(1,268)
Net cash used in capital and related financing activities		(1,268)	(1,268)
Cash flows from investing activities:			
Interest on investments	1,218		1,218
Net cash provided by investing activities	1,218		1,218
Net change in cash and cash equivalents		10	10
Balance - beginning of the year			
Balance - end of the year	-	\$ 10	\$ 10
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 9,031	\$ 1,860	\$ 10,891
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization		1,130	1,130
Effect of changes in assets and liabilities:			
Other accounts receivable		1,101	1,101
Due from other funds.	(1,656)	36	(1,620)
Inventories.		15	15
Loans and notes receivable	1,261		1,261
Other assets	246	231	477
Accounts payable and accrued liabilities	(1,224)	(566)	(1,790)
Accrued insurance on loan losses	(9,448)		(9,448)
Deferred revenue	(587)	(398)	(985)
Other liabilities	1,159	(141)	1,018
Net cash provided (used) by operating activities	\$(1,218)	\$ 3,268	\$ 2,050

STATE OF MARYLAND

Fiduciary Funds

The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Funds reflect the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and are accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

STATE OF MARYLAND

**Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefits Trust Funds**

June 30, 2004

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan <u>December 31, 2003</u>	Total
Assets:				
Cash and cash equivalents	\$ 1,660,242	\$ 511	\$ 4,175	\$ 1,664,928
Investments:				
U.S. Treasury and agency obligations	314,290	2,531		316,821
Bonds	1,433,777	18,317		1,452,094
Corporate equity securities	8,734,597	58,411		8,793,008
Mortgage related securities	1,252,679	3,768		1,256,447
Mutual funds	15,037,465		1,153,595	16,191,060
Guaranteed investment contracts			470,926	470,926
Real estate	780,166	2,384		782,550
Annuity contracts	176,721		160,363	337,084
Investment held by borrowers under securities lent with cash collateral	1,532,515			1,532,515
Total investments	29,262,210	85,411	1,784,884	31,132,505
Other receivables	477,684	1,351	8,230	487,265
Collateral for lent securities	1,575,643			1,575,643
Total assets	32,975,779	87,273	1,797,289	34,860,341
Liabilities:				
Accounts payable and accrued liabilities	1,233,412	1,351	89	1,234,852
Collateral obligation for lent securities	1,575,643			1,575,643
Total liabilities	2,809,055	1,351	89	2,810,495
Net assets:				
Held in trust for :				
Pension benefits	30,166,724	85,922		30,252,646
Deferred compensation benefits			1,797,200	1,797,200
Total net assets	\$30,166,724	\$85,922	\$1,797,200	\$32,049,846

STATE OF MARYLAND

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefits Trust Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2003	Total
Additions:				
Contributions:				
Employers	\$ 221,023	\$19,187	\$ 2,486	\$ 242,696
Members	204,158		141,331	345,489
Sponsors	411,029			411,029
Total contributions	836,210	19,187	143,817	999,214
Investment earnings:				
Net appreciation in fair value of investments	3,813,701	9,212	250,494	4,073,407
Interest	237,511	3,454	30,638	271,603
Dividends	190,984			190,984
Real estate operating net earnings	29,515			29,515
Net change in annuity reserves			2,876	2,876
Total investment income	4,271,711	12,666	284,008	4,568,385
Less investment expense	69,079			69,079
Net investment income	4,202,632	12,666	284,008	4,499,306
Total additions	5,038,842	31,853	427,825	5,498,520
Deductions:				
Benefit payments	1,570,622	15,611	98,819	1,685,052
Refunds.	11,942			11,942
Administrative expenses	17,376	160	5,195	22,731
Total deductions	1,599,940	15,771	104,014	1,719,725
Change in net assets	3,438,902	16,082	323,811	3,778,795
Net assets held in trust for pension and other employee benefits:				
July 1, 2003	26,727,822	69,840	1,473,389	28,271,051
June 30, 2004	\$30,166,724	\$85,922	\$1,797,200	\$32,049,846

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets
Retirement and Pension System of Maryland

June 30, 2004

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Assets:							
Cash and cash equivalents	\$ 987,090	\$ 553,786	\$ 12,907	\$ 89,950	\$ 639	\$ 15,870	\$ 1,660,242
Investments, at fair value	17,706,424	10,048,708	217,155	1,053,821	3,930	232,172	29,262,210
Other receivables	239,005	217,420	2,939	14,576	52	3,692	477,684
Collateral for lent securities	950,435	542,627	11,676	58,363	209	12,333	1,575,643
Total assets.	19,882,954	11,362,541	244,677	1,216,710	4,830	264,067	32,975,779
Liabilities:							
Accounts payable and accrued liabilities	745,222	424,091	9,266	45,679	168	8,986	1,233,412
Collateral obligation for lent securities	950,435	542,627	11,676	58,363	209	12,333	1,575,643
Total liabilities	1,695,657	966,718	20,942	104,042	377	21,319	2,809,055
Net Assets:							
Held in trust for pension benefits	\$18,187,297	\$10,395,823	\$223,735	\$1,112,668	\$4,453	\$242,748	\$30,166,724

STATE OF MARYLAND

Combining Statement of Changes in Plan Net Assets
Retirement and Pension System of Maryland
For the Year Ended June 30, 2004
(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Additions:							
Contributions:							
Employers	\$ 12,564	\$ 162,581	\$ 14,475	\$ 5,827	\$ 373	\$ 25,203	\$ 221,023
Members	113,536	79,864	1,458	6,312		2,988	204,158
Sponsors	405,407	5,424	198				411,029
Total contributions	531,507	247,869	16,131	12,139	373	28,191	836,210
Investment earnings:							
Net increase in fair value of investments	2,304,765	1,311,207	27,655	142,334	1,071	26,669	3,813,701
Interest	130,969	84,441	2,699	17,755	138	1,509	237,511
Dividends	115,370	65,526	1,406	7,293	54	1,335	190,984
Real estate operating net earnings	17,940	10,017	218	1,123	8	209	29,515
Total investment income	2,569,044	1,471,191	31,978	168,505	1,271	29,722	4,271,711
Less investment expense	40,898	23,935	569	3,159	22	496	69,079
Net investment income	2,528,146	1,447,256	31,409	165,346	1,249	29,226	4,202,632
Total additions	3,059,653	1,695,125	47,540	177,485	1,622	57,417	5,038,842
Deductions:							
Benefit payments	965,078	514,949	17,453	59,992	671	12,479	1,570,622
Refunds	5,050	6,244		572		76	11,942
Administrative expenses	10,494	5,978	127	646	4	127	17,376
Net transfers	101	8,025		(53)	5,281	(13,354)	
Total deductions	980,723	535,196	17,580	61,157	5,956	(672)	1,599,940
Change in net assets	2,078,930	1,159,929	29,960	116,328	(4,334)	58,089	3,438,902
Net assets held in trust for pension benefits:							
July 1, 2003	16,108,367	9,235,894	193,775	996,340	8,787	184,659	26,727,822
June 30, 2004	\$18,187,297	\$10,395,823	\$223,735	\$1,112,668	\$ 4,453	\$242,748	\$30,166,724

STATE OF MARYLAND

Combining Statement of Fiduciary Net Assets**Agency Funds****June 30, 2004**

(Expressed in Thousands)

	Agency Funds					Total Agency Funds
	Local Income Taxes	Insurance Premium Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	Litigant, Patient and Prisoner Accounts	
Assets:						
Cash and cash equivalents		\$ 10	\$ 1,060		\$65,614	\$ 66,684
Taxes receivable, net	\$ 154,061					154,061
Accounts receivable from state treasury	1,236,723	52,442	17,722	\$1,159		1,308,046
Other receivables.		2,400				2,400
Total assets.	\$1,390,784	\$54,852	\$18,782	\$1,159	\$65,614	\$1,531,191
Liabilities:						
Accounts payable to state treasury	\$ 49,525					\$49,525
Accounts payable and accrued liabilities.		\$54,852	\$ 1,060	\$1,159	\$65,614	122,685
Accounts payable to political subdivisions	1,341,259		17,722			1,358,981
Total liabilities	\$1,390,784	\$54,852	\$18,782	\$1,159	\$65,614	\$1,531,191

STATE OF MARYLAND

**Combining Statement of Changes in Assets
and Liabilities - Agency Funds
For the Year Ended June 30, 2004
(Expressed in Thousands)**

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<i>Litigant, Patient and Prisoner Accounts</i>				
Assets:				
Cash and cash equivalents	\$ 5,564	\$ 166,906	\$ 106,856	\$ 65,614
Liabilities:				
Accounts payable and accrued liabilities	\$ 5,564	\$ 166,906	\$ 106,856	\$ 65,614
<i>Insurance Premium Taxes</i>				
Assets:				
Cash and cash equivalents	\$ 10			\$ 10
Accounts receivable from state treasury	45,339	\$ 26,997	\$ 19,894	52,442
Other receivables	1,615	785		2,400
Total assets	\$ 46,964	\$ 27,782	\$ 19,894	\$ 54,852
Liabilities:				
Accounts payable and accrued liabilities	\$ 46,964	\$ 27,782	\$ 19,894	\$ 54,852
<i>Local Income Taxes</i>				
Assets:				
Taxes receivable	\$ 253,489	\$ 50,853	\$ 150,281	\$ 154,061
Accounts receivable from state treasury	1,024,433	3,337,954	3,125,664	1,236,723
Total assets.	\$1,277,922	\$3,388,807	\$3,275,945	\$1,390,784
Liabilities:				
Accounts payable to state treasury		\$ 49,525		\$ 49,525
Accounts payable to political subdivisions	\$1,277,922	3,339,282	\$3,275,945	1,341,259
Total liabilities	\$1,277,922	\$3,388,807	\$3,275,945	\$1,390,784
<i>Local Transportation Funds and Other Taxes</i>				
Assets:				
Cash and cash equivalents	\$ 2,044	\$ 14,603	\$ 15,587	\$ 1,060
Accounts receivable from state treasury	20,450	64,599	67,327	17,722
Total assets.	\$ 22,494	\$ 79,202	\$ 82,914	\$ 18,782
Liabilities:				
Accounts payable and accrued liabilities	\$ 2,044	\$ 14,603	\$ 15,587	\$ 1,060
Accounts payable to political subdivisions	20,450	64,599	67,327	17,722
Total liabilities	\$ 22,494	\$ 79,202	\$ 82,914	\$ 18,782
<i>Payroll Taxes and Fringe Benefits</i>				
Assets:				
Accounts receivable from state treasury	\$ 750	\$1,070,308	\$1,069,899	\$ 1,159
Liabilities:				
Accounts payable and accrued liabilities	\$ 750	\$1,070,308	\$1,069,899	\$ 1,159
<i>Totals - All Agency Funds</i>				
Assets:				
Cash and cash equivalents	\$ 7,618	\$ 181,509	\$ 122,443	\$ 66,684
Taxes receivable	253,489	50,853	150,281	154,061
Accounts receivable from state treasury	1,090,972	4,499,858	4,282,784	1,308,046
Other receivables	1,615	785		2,400
Total assets	\$1,353,694	\$4,733,005	\$4,555,508	\$1,531,191
Liabilities:				
Accounts payable to state treasury		\$ 49,525		\$ 49,525
Accounts payable and accrued liabilities	\$ 55,322	1,279,599	\$1,212,236	122,685
Accounts payable to political subdivisions	1,298,372	3,403,881	3,343,272	1,358,981
Total liabilities	\$1,353,694	\$4,733,005	\$4,555,508	\$1,531,191

STATE OF MARYLAND

COMPONENT UNIT FINANCIAL STATEMENTS

Non-Major Component Units

Non-major component units are comprised of the following proprietary fund type entities.

Maryland Prepaid College Trust

The Maryland Prepaid College Trust is directed by the Maryland Higher Education Investment Board to provide a method for Maryland citizens to save money for college tuition.

Maryland Environmental Service

The Maryland Environmental Service was created as a body corporate and politic. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs

Maryland Industrial Development Financing Authority

The Maryland Industrial Development Financing Authority was established as a body corporate and politic and a public instrumentality of the State to provide financial assistance to enterprises seeking to locate or expand operations in Maryland.

Maryland Food Center Authority

The Maryland Food Center Authority is a body corporate and politic which was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

STATE OF MARYLAND

Combining Statement of Net Assets

Non-major Component Units

June 30, 2004

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total Non-major Component Units
Assets:					
Cash and cash equivalents	\$ 1,541	\$ 750			\$ 2,291
Investments	254,267	6,085			260,352
Tuition contracts receivable	174,516				174,516
Other accounts receivable	77	14,075		\$ 154	14,306
Due from primary government	102		\$37,190	1,699	38,991
Investments in direct financing leases ...		9,458			9,458
Other assets		10,273			10,273
Restricted assets:					
Investments		20,984			20,984
Due from primary government				221	221
Capital assets					
(net of accumulated depreciation):					
Land		680		5,103	5,783
Structures and improvements		5,160		11,583	16,743
Infrastructure		1,473			1,473
Equipment	251	8,394		151	8,796
Construction in progress		279		2,964	3,243
Total assets	430,754	77,611	37,190	21,875	567,430
Liabilities:					
Accounts payable and accrued liabilities .	431	12,229		425	13,085
Loans from primary government	280				280
Unearned revenue			90	138	228
Accrued insurance on loan losses			5,057		5,057
Other liabilities	42			224	266
Bonds and notes payable:					
Due within one year		2,835			2,835
Due in more than one year		22,048			22,048
Other noncurrent liabilities:					
Due within one year	8,782	10,373		59	19,214
Due in more than one year	496,160	22,543		102	518,805
Total liabilities	505,695	70,028	5,147	948	581,818
Net Assets:					
Invested in capital assets, net of related debt	251	5,390		19,801	25,442
Restricted for capital improvements and deposits				221	221
Unrestricted (deficit)	(75,192)	2,193	32,043	905	(40,051)
Total net assets (deficiency)	\$ (74,941)	\$ 7,583	\$32,043	\$20,927	\$ (14,388)

STATE OF MARYLAND

Combining Statement of Activities

Non-major Component Units

For the Year Ended June 30, 2004

(Expressed in Thousands)

	Maryland Prepaid College Trust	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total
Expenses:					
General and administrative	\$ 1,636	\$ 7,268	\$ 1,158	\$ 2,871	\$ 12,933
Operation and maintenance of facilities ..		63,325			63,325
Reduction in provision for insurance on loan losses, net			(1,120)		(1,120)
Tuition benefits	114,635				114,635
Interest on long-term debt		1,692			1,692
Depreciation and amortization	101	1,930		517	2,548
Other	6	704		225	935
Total expenses	116,378	74,919	38	3,613	194,948
Program revenues:					
Charges for services and sales	82,485	71,151	839	3,955	158,430
Restricted investment income		157			157
Total charges for services	82,485	71,308	839	3,955	158,587
Capital grants and contributions		361			361
Total program revenues	82,485	71,669	839	3,955	158,948
Net program revenue (expense) ..	(33,893)	(3,250)	801	342	(36,000)
General revenues:					
Unrestricted investment income	27,798	127	481	58	28,464
Total general revenues	27,798	127	481	58	28,464
Change in net assets	(6,095)	(3,123)	1,282	400	(7,536)
Net assets - beginning	(68,846)	10,706	30,761	20,527	(6,852)
Net assets - ending	\$ (74,941)	\$ 7,583	\$32,043	\$20,927	\$ (14,388)

STATISTICAL SECTION

Statistical Section

This part of the State's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's economic condition.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the State's financial position and well-being have changed over time.	109
Revenue Capacity These schedules contain information to help the reader assess the State's most significant own-source revenues.	116
Debt Capacity These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	120
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	125
Operating Information These schedules contain service data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	128
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement 34 in 2002. The schedules presenting government-wide information include information beginning in that year.	

STATE OF MARYLAND

Net Assets by Component, Primary Government**Last Three Fiscal Years**

(accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30,		
	2004	2003	2002
Governmental activities:			
Invested in capital assets, net of related debt	\$11,937,207	\$11,943,249	\$11,016,638
Restricted**	584,558	350,553	458,552
Unrestricted (deficit)	(1,516,464)	(1,514,647)	18,563
Total governmental activities net assets	<u>\$11,005,301</u>	<u>\$10,779,155</u>	<u>\$11,493,753</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$1,331,400	\$1,231,338	\$1,217,578
Restricted	1,556,170	1,518,996	1,378,025
Unrestricted	1,197,542	1,208,954	1,610,282
Total business-type activities net assets	<u>\$ 4,085,112</u>	<u>\$3,959,288</u>	<u>\$4,205,885</u>
Primary government:			
Invested in capital assets, net of related debt	\$13,268,607	\$13,174,587	\$12,234,216
Restricted	2,140,728	1,869,549	1,836,577
Unrestricted (deficit)	(318,922)	(305,693)	1,628,845
Total primary government net assets	<u>\$15,090,413</u>	<u>\$14,738,443</u>	<u>\$15,699,638</u>

**Information for fiscal years 2002 & 2003 has been restated in fiscal year 2004 to reflect reclassifications of certain balances.

STATE OF MARYLAND

Changes in Net Assets
Last Three Fiscal Years
(accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30,		
	2004	2003	2002
Governmental activities (1):			
Expenses	\$20,382,202	\$19,588,410	\$18,234,226
Program revenues	7,941,822	7,221,988	6,579,856
Net (expense)/revenue, governmental activities	(12,440,380)	(12,366,422)	(11,654,370)
General revenues and other changes, governmental activities	12,592,202	11,651,824	11,209,102
Change in net assets, governmental activities	151,822	(714,598)	(445,268)
Net assets, beginning	10,779,155	11,493,753	3,371,858
Restatement (2)	74,324		8,567,163
Net assets, ending, governmental activities	\$11,005,301	\$10,779,155	\$11,493,753
Business-type activities (1):			
Expenses	\$2,038,850	\$2,191,318	\$1,960,333
Program revenues	2,594,808	2,339,895	2,097,340
Net (expense)/revenue, business-type activities	555,958	148,577	137,007
General revenues and other changes, business-type activities	(430,134)	(395,174)	(99,232)
Change in net assets, business-type activities	125,824	(246,597)	37,775
Net assets, beginning	3,959,288	4,205,885	2,995,032
Adjustment (2)			1,173,078
Net assets, ending, business-type activities	\$4,085,112	\$3,959,288	\$4,205,885
Primary government:			
Expenses	\$22,421,052	\$21,779,728	\$20,194,559
Program revenues	10,536,630	9,561,883	8,677,196
Net (expense)/revenue, primary government	(11,884,422)	(12,217,845)	(11,517,363)
General revenues and other changes, primary government	12,162,068	11,256,650	11,109,870
Change in net assets, primary government	277,646	(961,195)	(407,493)
Net assets, beginning	14,738,443	15,699,638	6,366,890
Restatement	74,324		9,740,241
Net assets, ending, primary government	\$15,090,413	\$14,738,443	\$15,699,638

- (1) See the Expenses by Function, Primary Government and Revenues, Primary Government schedules for detail information on expenses and revenues.
- (2) The beginning fund balances were restated due to implementation of GASB Statement No. 34 and Technical Bulletin No. 2004-1. Prior year's balances were not restated for the Technical Bulletin.

STATE OF MARYLAND

Expenses by Function, Primary Government

Last Three Fiscal Years

(accrual basis of accounting)

(Expressed in Thousands)

Functions/Programs	Year ended June 30,		
	2004	2003	2002
Governmental activities:			
General government	\$ 598,116	\$ 665,133	\$ 610,560
Health and mental hygiene	6,090,102	5,592,272	4,908,418
Education	4,871,972	4,229,670	4,124,255
Aid for higher education**	1,081,099	1,554,955	1,536,851
Human resources	1,586,022	1,633,461	1,536,124
Public safety	1,398,017	1,338,202	1,194,952
Transportation	1,839,205	1,694,321	1,630,724
Judicial	439,576	429,302	408,571
Labor, licensing and regulation	175,551	182,584	173,625
Natural resources and recreation	169,791	168,107	149,372
Housing and community development	202,278	203,946	168,595
Environment	85,382	95,079	87,432
Agriculture	46,427	85,426	64,395
Business and economic development	58,666	43,387	55,570
Intergovernmental grants	1,461,133	1,422,007	1,375,043
Interest	278,865	250,558	209,739
Total governmental activities expenses	20,382,202	19,588,410	18,234,226
Business-type activities:			
Economic development - insurance programs	(4,911)	2,938	5,262
Economic development - general loan programs	53,237	48,633	69,381
Economic development - water quality loan programs	11,348	11,510	11,892
Economic development - housing loan programs	135,717	213,404	210,469
Unemployment insurance program	581,634	633,904	550,345
Maryland State Lottery	927,941	883,736	867,910
Maryland Transportation Authority	300,072	359,015	205,831
State Use Industries	33,812	38,178	39,243
Total business-type activities expenses	2,038,850	2,191,318	1,960,333
Total primary government expenses	\$22,421,052	\$21,779,728	\$20,194,559

**Information for fiscal years 2002 & 2003 has been restated to reflect reclassification of certain expenditures.

STATE OF MARYLAND

Revenues, Primary Government**Last Three Fiscal Years**

(accrual basis of accounting)

(Expressed in Thousands)

Source	Year ended June 30,		
	2004	2003	2002
Governmental activities:			
Program revenues:			
Charges for services:			
General government	\$ 349,078	\$ 325,115	\$ 238,480
Health and mental hygiene	289,988	224,300	191,164
Transportation	716,422	526,253	615,261
Judicial	384,215	276,787	291,546
Other activities	277,720	303,190	271,176
Operating grants and contributions	5,204,906	4,843,927	4,225,374
Capital grants and contributions	719,493	722,416	746,855
Total program revenues	7,941,822	7,221,988	6,579,856
General revenues:			
Taxes:			
Income taxes	5,518,813	5,107,593	4,913,185
Sales and use taxes	2,944,534	2,719,547	2,690,099
Motor vehicle taxes	1,792,769	1,693,736	1,660,994
Other taxes	1,852,418	1,545,013	1,413,307
Unrestricted investment earnings	48,134	62,611	109,065
Special items		114,200	25,628
Transfers	435,534	409,124	396,824
Total general revenues, special items and transfers	12,592,202	11,651,824	11,209,102
Total revenues, transfers and special items - governmental activities	20,534,024	18,873,812	17,788,958
Business-type activities:			
Program revenues:			
Charges for services:			
Unemployment insurance program	528,238	341,004	254,483**
Maryland State Lottery	1,395,408	1,322,239	1,306,538
Maryland Transportation Authority	280,098	242,429	189,658
Other activities	203,462	257,859	337,536**
Operating grants and contributions	129,991	136,113	234,993
Capital grants and contributions	57,611	40,251	53,701
Total program revenues	2,594,808	2,339,895	2,376,909
General revenues:			
Unrestricted investment earnings	5,400	13,950	18,023**
Transfers	(435,534)	(409,124)	(396,824)
Total general revenues and transfers	(430,134)	(395,174)	(378,801)
Total revenues and transfers - business-type activities	2,164,674	1,944,721	1,998,108
Total primary government revenues, special items, and transfers	\$22,698,698	\$20,818,533	\$19,787,066

**Information for fiscal year 2002 has been restated to reflect reclassification of certain revenues.

STATE OF MARYLAND

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)
(Expressed in Thousands)

	Year ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General Fund:										
Reserved	\$1,362,310	\$1,295,012	\$1,368,973	\$1,467,309	\$1,072,483	\$1,175,393	\$1,062,223	\$ 865,377	\$ 810,066	\$ 512,993
Unreserved (deficit)	127,127	(110,344)	265,468	989,296	1,297,584	802,572	532,969	193,686	(49,665)	108,343
Total general fund	\$1,489,437	\$1,184,668	\$1,634,441	\$2,456,605	\$2,370,067	\$1,977,965	\$1,595,192	\$1,059,063	\$ 760,401	\$ 621,336
All Other Governmental Funds:										
Reserved	\$ 588,190	\$ 554,714	\$ 615,866	\$ 566,430	\$ 472,225	\$ 507,288	\$ 485,012	\$ 571,127	\$ 670,762	\$ 674,604
Unreserved, reported in:										
Special revenue funds	199,289	135,710	134,470	400,957	418,314	243,757	315,546	254,789	179,033	230,709
Capital projects funds(1)	(425,038)	(163,001)	(156,587)	222,161	(27,397)	119,510	(80,848)	(244,778)	(253,732)	(337,248)
Debt service funds	73,268	30,815	25,916	117,127	98,550	100,130	114,529	96,338	120,016	170,868
Total all other governmental funds ...	\$ 435,709	\$ 558,238	\$ 619,665	\$1,306,675	\$ 961,692	\$ 970,685	\$ 834,239	\$ 677,476	\$ 716,079	\$ 738,933

(1) The unreserved fund balance deficit of the capital projects fund will be funded by future bond proceeds and capital appropriations of the general fund.

STATE OF MARYLAND

Changes in Fund Balances, Governmental Funds,

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Expressed in Thousands)

	Year ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Revenues:										
Income taxes	\$5,499,953	\$5,080,359	\$4,911,807	\$5,741,664	\$5,223,740	\$4,845,406	\$4,491,384	\$4,084,147	\$3,796,251	\$3,669,027
Retail sales and use taxes	2,945,060	2,717,383	2,689,567	2,646,103	2,497,531	2,299,266	2,161,158	2,093,876	2,000,298	1,951,031
Motor vehicle taxes and fees	1,792,769	1,693,736	1,660,994	1,577,714	1,570,433	1,507,898	1,426,340	1,373,002	1,321,412	1,298,132
Other taxes	1,852,417	1,545,013	1,413,307	1,453,179	1,366,807	1,203,907	1,149,092	1,057,592	1,065,176	1,031,735
Other licenses and fees	754,995	544,456	610,009	450,768	459,063	328,442	289,414	208,009	211,817	216,621
Charges for services	1,044,636	775,852	814,332	875,717	793,722	758,698	737,099	658,583	670,901	803,183
Revenues pledged as security for bonds	52,255	69,108	41,161 (2)							
Interest and other investment income	32,251	51,304	108,214	288,936	193,897	174,945	151,443	138,893	114,986	100,626
Federal	5,872,371	5,506,539	4,931,908	4,451,010	3,973,662	3,681,692	3,509,817	3,726,882	3,357,959	3,277,297
Other	162,748	261,226	153,510	126,379	99,482	164,922	134,829	134,875	186,902	190,297
Total revenues	20,009,455	18,244,976	17,334,809	17,611,470	16,178,337	14,965,176	14,050,576	13,475,859	12,725,702	12,537,949
Expenditures:										
Current:										
General government	627,626	640,205	627,367	586,812	546,049	495,028	427,482	382,424	520,419	616,518
Education	5,919,742	5,779,552	5,675,065	3,888,180	3,626,739	3,440,054	3,239,233	3,025,536	2,818,909	2,637,338
Business and economic development	58,259	43,441	55,418	55,952	54,593	50,344	45,083	41,026	42,259	163,735
Labor, licensing and regulation	174,047	181,835	174,725	177,196	183,363	158,192	148,980	141,523	155,495	
Human resources	1,560,876	1,614,493	1,536,780	1,456,484	1,341,603	1,285,650	1,317,365	1,304,480	1,344,361	1,382,650
Health and mental hygiene	6,064,735	5,545,991	4,893,824	4,483,159	3,956,048	3,599,677	3,255,961	3,323,439	3,132,078	3,240,900
Environment	84,443	95,500	87,447	78,960	73,910	68,119	60,973	64,722	71,911	64,943
Transportation	1,143,520	1,123,911	1,103,756	1,070,893	1,007,331	979,560	859,460	860,986	859,208	783,786
Public safety	1,357,943	1,326,612	1,265,624	1,533,283	1,435,979	1,349,764	1,202,632	1,238,772	1,061,974	938,507
Judicial	434,135	421,702	407,079 (3)							
Housing and community development	202,346	205,501	168,580	121,602	103,804	106,604	97,661	80,390	67,093	69,611
Natural resources and recreation ..	166,730	175,845	167,160	150,850	147,179	131,541	122,113	125,269	123,681	116,530
Agriculture	60,537	83,384	91,562	75,990	59,552	53,078	42,202	38,138	43,010	34,872
Intergovernmental	1,461,133	1,422,007	1,375,043	1,336,429	1,186,985	1,151,315	1,109,755	1,036,094	933,700	937,236
Debt service:										
Principal	424,925	421,859	406,850	397,581	406,047	374,882	364,154	358,850	370,675	282,185
Interest	247,027	203,701	202,834	220,466	234,840	228,748	229,148	226,739	231,324	223,846
Capital outlays	1,461,067	1,464,110	1,415,740	1,343,570	1,121,889	1,106,875	1,044,187	1,137,356	1,047,936	1,075,888
Total expenditures	21,449,091	20,749,649	19,654,854	16,977,407	15,485,911	14,579,431	13,566,389	13,385,744	12,824,033	12,568,545
Excess (deficiency) of revenues over expenditures	(1,439,636)	(2,504,673)	(2,320,045)	634,063	692,426	385,745	484,187	90,115	(98,331)	(30,596)

Other financing sources (uses) :											
Capital leases	145,455	101,814	44,294	70,793	54,489	100,001	117,234	62,200	62,930	16,872	
Proceeds from bond issues	898,818	1,196,199	615,846	422,890	202,417	483,805	514,190	460,000	469,504	566,384	
Other long-term liabilities	142,015	171,239	119,460		20,000						
Proceeds from refunding bonds ...	83,591	685,594	117,458				113,340				
Payments to escrow agents	(83,537)	(684,697)	(117,217)				(113,661)				
Transfers in	1,111,330	1,244,595	1,453,353	1,644,746	1,321,917	1,179,676	1,020,788	920,843	910,063	1,033,400	
Transfers out	(675,796)	(835,471)	(1,056,529)	(1,302,866)	(991,248)	(806,851)	(670,151)	(563,969)	(548,955)	(1,342,979)	
Transfers to component units...			(4)(1,038,105)		(916,892)	(823,157)	(773,035)	(710,162)	(679,000)		
Net other sources(uses) of financial resources	1,621,876	1,879,273	1,176,665	(202,542)	(309,317)	133,474	208,705	168,912	214,542	273,677	
Special items		114,200	25,628 (5)								
Net change in fund balances ..	182,240	(511,200)	(1,117,752)	431,521	383,109	519,219	692,892	259,027	116,211	243,081	
Fund balance, July 1	1,742,906	2,254,106	3,763,280	3,331,759	2,948,650	2,429,431	1,736,539	1,476,480	1,360,269	1,117,188	
Adjustments			(391,422) (6)					1,032 (1)			
Fund balance, June 30	\$1,925,146	\$1,742,906	\$2,254,106	\$3,763,280	\$3,331,759	\$2,948,650	\$2,429,431	\$1,736,539	\$1,476,480	\$1,360,269	
Debt service as a percentage of noncapital expenditures	3.4 %	3.3 %	3.4 %	4.0 %	4.5 %	4.5 %	4.7%	4.8 %	5.1 %	4.4%	

(1) Effective July 1, 1996, investments of the general governmental funds were valued at fair value which is based on quoted market prices.

(2) These revenues were previously recorded as federal revenue.

(3) These expenditures were previously included in public safety.

(4) Effective July 1, 2001, all transactions between the primary government and component units are treated as revenues and expenses.

(5) Includes certain one-time transfers from organizations outside the primary government.

(6) Effective July 1, 2001, the beginning fund balance was restated for inventory. Also, the Maryland Transportation Authority's activities were no longer recorded in the special revenue and debt service funds, and its beginning equity was reclassified from the respective governmental funds to the enterprise funds.

STATE OF MARYLAND

Personal Income Tax Filers by Subdivision**Tax Year Ended December 31, 2003**

(Dollars Expressed in Thousands)

Subdivision	Number of Filers	Adjusted Gross Income	Net Taxable Income	State Income Tax (1)	Local Income Tax	Total State and Local Income Tax	Local Tax Rate
Allegany	22,643	\$ 938,152	\$ 707,971	\$ 31,179	\$ 20,159	\$ 51,338	2.93%
Anne Arundel	195,663	12,989,482	10,006,368	452,277	253,833	706,110	2.56%
Baltimore County ...	303,020	18,201,614	14,005,999	628,461	390,681	1,019,142	2.83%
Calvert	30,970	2,054,442	1,538,974	69,885	39,644	109,529	2.60%
Caroline	10,736	448,100	326,109	13,464	8,270	21,734	2.63%
Carroll	60,467	3,792,156	2,867,775	130,846	81,081	211,927	2.85%
Cecil	32,431	1,692,567	1,274,114	39,620	35,072	74,692	2.80%
Charles.	49,771	2,928,664	2,140,305	96,849	61,257	158,106	2.90%
Dorchester	10,950	439,800	321,171	13,553	8,008	21,561	2.62%
Frederick	83,702	5,251,289	3,989,317	180,911	117,004	297,915	2.96%
Garrett	9,553	412,399	308,128	13,371	7,905	21,276	2.65%
Harford	87,035	5,263,653	4,002,930	179,992	121,239	301,231	3.06%
Howard	100,012	8,292,222	6,555,035	299,887	159,768	459,655	2.45%
Kent	6,889	355,314	269,003	10,973	6,791	17,764	2.58%
Montgomery	357,522	28,992,891	22,917,537	1,013,579	671,079	1,684,658	2.95%
Prince George's	319,148	15,544,050	10,492,687	461,993	315,674	777,667	3.10%
Queen Anne's	15,904	1,062,748	805,931	35,947	22,745	58,692	2.85%
St. Mary's.	33,247	1,932,590	1,472,415	66,611	45,051	111,662	3.10%
Somerset	6,844	258,118	183,549	7,748	5,471	13,219	3.15%
Talbot	13,465	885,850	693,794	29,853	12,238	42,091	1.79%
Washington	50,030	2,364,987	1,791,035	79,836	49,122	128,958	2.80%
Wicomico	30,505	1,432,017	1,083,194	45,297	32,509	77,806	3.10%
Worcester	19,692	1,013,121	780,216	33,150	9,562	42,712	1.25%
Baltimore City	194,896	7,738,402	5,540,194	232,854	157,899	390,753	3.05%
Non-resident	59,710	2,336,919	1,984,399	90,598		90,598	
Total	2,104,805	\$126,621,547	\$96,058,150	\$4,258,734	\$2,632,062	\$6,890,796	

(1) See personal income tax state rates schedule for tax rate information.

Source: Revenue Administration Division, State Comptroller's Office

STATE OF MARYLAND

State Personal Income Tax and Sales Tax Rates
Last Ten Calendar Years

Year	Personal Income Tax Rate				Sales Tax Rate
	1st \$1,000 of Net Taxable Income	2nd \$1,000 of Net Taxable Income	3rd \$1,000 of Net Taxable Income	In excess of \$3,000 Net Taxable Income	
2003	2%	3%	4%	4.75%	5%
2002	2	3	4	4.75	5
2001	2	3	4	4.80	5
2000	2	3	4	4.85	5
1999	2	3	4	4.85	5
1998	2	3	4	4.88	5
1997	2	3	4	5.00	5
1996	2	3	4	5.00	5
1995	2	3	4	5.00	5
1994	2	3	4	6.00	5

Source: Revenue Administration Division, State Comptroller's Office

Personal Income Tax Filers and Liability by Income Level
Last Six Tax Years Ended December 31st*
(Dollars, except income level, Expressed in Thousands)

2003			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	289,448	13.75%	\$2,107,257
\$75,000-\$99,999	205,607	9.77	611,558
\$50,000-\$74,999	345,285	16.40	695,499
\$25,000-\$49,999	626,336	29.76	660,343
\$10,000-\$24,999	513,506	24.40	170,481
Under \$10,000	124,623	5.92	13,594
Total	2,104,805	100.00%	\$4,258,734
			100.00%

2001			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	259,490	12.33%	\$1,935,778
\$75,000-\$99,999	195,174	9.27	596,649
\$50,000-\$74,999	343,206	16.31	715,851
\$25,000-\$49,999	635,022	30.18	710,635
\$10,000-\$24,999	535,255	25.44	192,109
Under \$10,000	136,244	6.47	16,363
Total	2,104,391	100.00%	\$4,167,387
			100.00%

1999			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	216,148	10.60%	\$1,759,730
\$75,000-\$99,999	173,353	8.50	545,918
\$50,000-\$74,999	324,731	15.92	698,803
\$25,000-\$49,999	607,977	29.81	713,496
\$10,000-\$24,999	557,913	27.36	209,862
Under \$10,000	159,306	7.81	19,534
Total	2,039,428	100.00%	\$3,947,343
			100.00%

2002			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	269,980	12.87%	\$1,924,320
\$75,000-\$99,999	201,154	9.59	597,359
\$50,000-\$74,999	346,786	16.53	700,379
\$25,000-\$49,999	631,516	30.10	672,903
\$10,000-\$24,999	523,825	24.97	176,215
Under \$10,000	124,636	5.94	14,180
Total	2,097,897	100.00 %	\$4,085,355
			100.00%

2000			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	249,751	11.88%	\$2,079,398
\$75,000-\$99,999	186,436	8.86	586,145
\$50,000-\$74,999	335,542	15.95	720,951
\$25,000-\$49,999	623,894	29.66	729,468
\$10,000-\$24,999	552,841	26.29	206,352
Under \$10,000	154,889	7.36	19,193
Total	2,103,353	100.00 %	\$4,341,506
			100.00%

1998			
Income Level	Number of Filers	Percentage of Total	Income Tax Liability
\$100,000 and higher	190,139	9.54%	\$1,563,153
\$75,000-\$99,999	162,770	8.17	515,946
\$50,000-\$74,999	317,930	15.95	687,644
\$25,000-\$49,999	601,315	30.18	714,703
\$10,000-\$24,999	565,454	28.38	217,229
Under \$10,000	155,103	7.78	20,150
Total	1,992,711	100.00%	\$3,718,824
			100.00%

Source: Revenue Administration Division, State Comptroller's Office

*Information not available for tax years prior to December 31, 1998.

STATE OF MARYLAND

Sales and Use Tax Receipts by Principal Type of Business
Last Ten Fiscal Years
(Expressed in Thousands)

Year	Food and Beverage	Building & Industrial Supplies				Hardware, Machinery & Equipment			Assessment Collections	Total Collections
		Apparel	General Merchandise	Automotive	Furniture and Appliances	Utilities & Transportation	Miscellaneous	Assessment Collections		
2004	\$591,744	\$144,961	\$538,364	\$216,385	\$333,307	\$417,729	\$78,351	\$387,780	\$29,721	\$2,969,441
2003	555,108	133,363	504,099	202,927	314,144	359,468	70,427	362,003	17,165	2,737,241
2002	542,276	132,067	489,102	197,122	315,080	365,132	72,343	359,394	21,184	2,708,539
2001	519,182	131,930	483,137	193,744	342,499	348,702	73,417	330,213	17,534	2,669,059
2000	486,772	121,352	455,649	179,047	328,156	339,764	72,282	327,442	16,747	2,520,984
1999	464,543	113,629	422,185	145,572	305,184	309,121	66,603	312,845	12,909	2,315,798
1998	445,391	105,111	409,091	138,356	282,982	274,130	67,133	291,963	20,331	2,179,962
1997	435,908	99,808	394,279	139,086	280,499	245,292	77,080	272,710	15,574	2,103,964
1996	420,018	100,631	371,495	139,883	272,000	222,920	71,812	244,251	21,333	2,000,294
1995	409,563	104,563	357,251	134,042	253,389	238,771	62,946	232,583	25,864	1,951,029

Source: Revenue Administration Division, Comptroller's Office

STATE OF MARYLAND

Schedule of Ratio of Outstanding Debt by Type

Last Three Fiscal Years*

(Dollars Expressed in Thousands except Per Capita)

Fiscal Year	General Bonded Debt			Other Governmental Activities Debt			Debt Ratios, Governmental Activities			Business Type Activities Debt			Total		Debt Ratios, Primary Government	
	General Obligation Bonds	Transportation Bonds		Capital Leases	Capital Component Units		Total Governmental Activities Debt	Percentage of Personal Income (1)	Per Capita (1)	Revenue Bonds	Capital Leases		Business-Type Activities Debt	Primary Government Debt	Percentage of Personal Income (1)	Per Capita (1)
2004	\$4,102,278	\$1,188,090		\$345,028	\$303,901		\$5,939,297	2.89 %	\$1,078	\$2,935,711	\$3,132		\$2,938,843	\$8,878,140	4.32 %	\$1,612
2003	3,932,493	964,400		262,792	296,672		5,456,357	2.76	1,001	3,220,797	2,371		3,223,168	8,679,525	4.39	1,592
2002	3,544,178	717,980		220,649	290,510		4,773,317	2.51	887	3,412,923	3,243		3,416,166	8,189,483	4.30	1,521

Source: General Accounting Division, State Comptroller's Office

(1) Population and personal income data can be found in the Schedule of Demographic Statistics.

STATE OF MARYLAND

**Ratio of General Bonded Debt
To Actual Value and General Bonded Debt Per Capita
Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)		General Bonded Debt (2)	Ratio of General Bonded Debt to Actual Property Value	General Bonded Debt per Capita
	Estimated Population (1)	Estimated Actual Property Value			
2004	5,509	\$361,689,307	\$4,102,278	1.13%	\$745
2003	5,451	336,657,741	3,932,493	1.17	721
2002	5,383	318,778,365	3,544,178	1.11	658
2001	5,312	307,476,610	3,450,900	1.12	650
2000	5,255	327,817,193	3,348,866	1.02	637
1999	5,204	317,639,013	3,500,228	1.10	673
1998	5,157	309,303,572	3,270,525	1.06	634
1997	5,111	299,899,529	3,025,394	1.01	592
1996	5,070	293,505,618	2,859,939	0.97	564
1995	5,023	287,059,336	2,619,069	0.91	521

Source: The Fifty-first through Sixtieth Report of the State Department of Assessments and Taxation and the State Comptroller's Office.

(1) See Schedule of Demographic Statistics.

(2) Includes general obligation bonds. The primary revenue source to pay the debt service for general obligation bonds is property taxes.

STATE OF MARYLAND

Legal Debt Margin Information
Last Ten Fiscal Years
 (Expressed in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2004

	Year ended June 30,									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Debt limit(1)	\$7,301,732									
Debt applicable to limit:										
General obligation bonds	4,102,278									
Transportation bonds	1,185,650									
Less amounts set aside for repayment of:										
General obligation debt	57,009									
Transportation debt	18,150									
Total net debt applicable to limit	<u>5,212,769</u>									
Legal debt margin	<u>\$2,088,963</u>									
Debt limit	\$7,301,732	\$6,800,976	\$6,116,782	\$5,747,158	\$5,677,486	\$5,483,722	\$5,397,037	\$5,250,050	\$5,034,576	\$4,945,043
Total net debt applicable to limit	5,212,769	4,862,003	4,232,412	4,081,297	4,053,728	4,223,364	4,079,910	3,901,959	3,769,718	3,605,964
Legal debt margin	\$2,088,963	\$1,938,973	\$1,884,370	\$1,665,861	\$1,623,758	\$1,260,358	\$1,317,127	\$1,348,091	\$1,264,858	\$1,339,079
Total net debt applicable to the limit										
as a percentage of debt limit	71.39%	71.49%	69.19%	71.01%	71.40%	77.02%	75.60%	74.32%	74.88%	72.92%

Source: General Accounting Division, State Comptroller's Office

(1) For general obligation bonds, the debt limit is based on separate enabling acts for particular objects or purposes that are enacted during each legislative session. There is no separately mandated maximum amount for the issuance of general obligation bonds. For transportation bonds, the General Assembly each year establishes a maximum aggregate outstanding amount that does not exceed \$1,500,000,000 up to June 30, 2004, and \$2,000,000,000 thereafter.

STATE OF MARYLAND

**Schedule of Taxes Pledged to Consolidated Transportation
Bonds and Net Revenues as Defined for Purposes of
Consolidated Transportation Bonds Coverage Tests (1)
Last Ten Fiscal Years
(Expressed in Thousands)**

	Year ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Revenues:										
Taxes and fees (2):										
Taxes pledged to bonds	\$1,145,048	\$1,073,953	\$1,046,715	\$1,027,808	\$ 981,548	\$ 934,051	\$ 857,816	\$ 839,928	\$ 813,072	\$ 771,765
Other taxes and fees	112,305 (3)	88,833 (3)	238,303	219,426	220,672	214,483	198,101	196,044	187,558	216,995
Total taxes and fees	1,257,353	1,162,786	1,285,018	1,247,234	1,202,220	1,148,534	1,055,917	1,035,972	1,000,630	988,760
Operating revenues	339,635	299,844	297,489	303,206	311,909	267,946	241,357	218,874	203,891	212,767
Investment income	3,374	2,960	3,724	10,423	10,206	10,142	10,933	9,108	13,646	12,705
Other	90,943	79,023	25,950	24,619	19,361	15,486	14,228	9,913	21,670	7,613
Total revenues	1,691,305	1,544,613	1,612,181	1,585,482	1,543,696	1,442,108	1,322,435	1,273,867	1,239,837	1,221,845
Administration, operation and maintenance expenditures	1,177,889	1,159,176	1,044,908	979,318	913,059	868,439	808,439	769,977	784,816	709,180
Less: federal funds	(76,503)	(76,841)	(50,396)	(29,418)	(24,723)	(20,472)	(11,530)	(19,966)	(21,520)	(17,567)
Total	1,101,386	1,082,335	994,512	949,900	888,336	847,967	796,909	750,011	763,296	691,613
Net revenues	\$ 589,919	\$ 462,278	\$ 617,669	\$ 635,582	\$ 655,360	\$ 594,141	\$ 525,526	\$ 523,856	\$ 476,541	\$ 530,232
Maximum annual principal and interest requirements	\$ 169,655	\$ 153,965	\$ 138,183	\$ 127,060	\$ 127,060	\$ 133,267	\$ 133,267	\$ 142,769	\$ 140,269	\$ 140,269
Ratio of net revenues to maximum annual principal and interest requirements	3.48	3.00	4.47	5.00	5.16	4.46	3.94	3.67	3.40	3.78
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements	6.75	6.98	7.57	8.09	7.73	7.01	6.44	5.88	5.80	5.50

Source: The Secretary's Office of the Department of Transportation.

- (1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the preceding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.
- (2) Consolidated Transportation Bonds are payable from certain taxes, principally, motor vehicle excise taxes, principally, motor fuel taxes, and a portion of the corporate income tax. These amounts are available to the extent necessary for that exclusive purpose. Other receipts of the Department are available if necessary.
- (3) In fiscal years 2003 and 2004, \$160,000,000 and \$154,913,000, respectively, of other taxes and fees were transferred to the General Fund per legislation.

STATE OF MARYLAND

**Ratio of Pledged Assets to
Revenue Bonds, Community Development Administration
Last Ten Fiscal Years**

Fiscal Year	Pledged Assets (1)	Revenue Bonds Payable	Ratio of Pledged Assets to Revenue Bonds
2004	\$2,643,756	\$2,211,905	1.20
2003	3,003,939	2,537,388	1.18
2002	3,030,657	2,628,254	1.15
2001	3,004,743	2,640,052	1.14
2000	2,917,980	2,606,943	1.12
1999	2,759,753	2,462,918	1.12
1998	2,711,296	2,385,177	1.14
1997	2,574,572	2,297,720	1.12
1996	2,630,911	2,394,813	1.10
1995	2,644,205	2,428,131	1.09

(1) Bonds and notes issued by the Community Development Administration (CDA) are special obligations of CDA and are payable solely from the revenues of the applicable mortgage loan programs. Assets, principally mortgage loans, and program revenues are pledged as collateral for the revenue bonds.

STATE OF MARYLAND

Schedule of Demographic Statistics
Last Ten Years

	Population (1)	Total Personal Income (2) (Expressed in Thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2004	5,508,909	\$205,652,120	\$37,331	1,056,520	4.3 %
2003	5,450,525	197,868,861	36,303	1,056,944	4.7
2002	5,383,377	190,331,297	35,355	1,049,733	4.6
2001	5,311,531	181,957,207	34,257	1,040,020	3.8
2000	5,254,509	167,074,691	31,796	1,017,574	3.3
1999	5,204,464	157,783,778	30,317	1,009,870	4.0
1998	5,157,328	147,842,522	28,666	998,085	4.8
1997	5,111,986	140,035,065	27,393	985,180	5.0
1996	5,070,333	133,814,282	26,393	977,828	5.1
1995	5,023,060	128,522,965	25,587	964,389	5.0

Sources:

- (1) US Department of Commerce, Bureau of Census--"Annual Population Estimates by State"

Note: Figures are estimates for the calendar year except that the current year amount is a projected estimate for the year.

- (2) US Department of Commerce, Bureau of Economic Analysis. All ten years of income data based on April 2004 Comprehensive revision of State Personal Income Statistics for 1969-2002 Preliminary estimates are provided for 2003-2004. Data provided is for the prior ending calendar year.
- (3) Figures are for the calendar year. State Department of Education, grades pre-kindergarten thru grade 12.
- (4) Figures are for the fiscal year. State Department of Labor, Licensing and Regulation.

STATE OF MARYLAND

**Schedule of Employment by Sector
Prior Year and Nine Years Prior (3)**

	Calendar Year 2003 (1)			Calendar Year 1994 (2)		
	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
Government:						
State and local	322,194	\$12,787,199	\$ 763	270,399	\$ 8,152,345	\$580
Federal	128,264	8,590,008	1,288	131,471	5,531,443	809
Total government	450,458	21,377,207	913	401,870	13,683,788	655
Manufacturing	147,798	7,439,767	968	178,890	6,337,464	681
Natural Resources and Mining	6,440	192,678	575			
Construction	167,495	7,079,188	813	126,123	3,641,412	555
Trade, Transportation, and Utilities	458,526	15,470,384	649	100,335	3,554,470	681
Wholesale				103,224	3,767,886	702
Retail				411,104	6,449,348	302
Information Services	50,365	2,915,563	1,113			
Financial Activities	156,231	8,851,511	1,090	134,146	4,668,911	669
Professional and Business Services	360,676	17,255,985	920			
Education and Health Services	326,564	12,210,159	719			
Leisure and Hospitality	218,993	3,731,168	328			
Unclassified and other Services	88,770	2,430,099	526	652,156	17,787,925	525
Total of all sectors	2,432,316	\$98,953,709	\$782	2,107,848	\$59,891,204	\$546

(1) Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information Publication "Employment and Payroll 2003 Annual Averages" issued August, 2004. This report reflects the new North American Industry Classification System (NAICS) coding revisions.

(2) Source: Maryland Department of Economic and Employment Development, Office of Labor Market Analysis and Information, December 31, 1994.

(3) Some of the data is not comparative due to reclassifications made during the term of the two periods.

STATE OF MARYLAND

Maryland's Ten Largest Private Employers (1)
Calendar Year 2003

Employer (listed alphabetically)
Giant of Maryland LLC
Helix Health System Inc.
Home Depot USA Inc.
Johns Hopkins Hospital
Johns Hopkins University
Northrop Grumman Corporation
Safeway Inc
United Parcel Service
Verizon Maryland Inc.
Wal-Mart

Source: Department of Labor, Licensing and Regulation; Office of Labor Market
Analysis and Information @ [www.dllr.state.md.us/Topprivate
employers/Maryland Career and Workforce Information](http://www.dllr.state.md.us/Topprivateemployers/Maryland%20Career%20and%20Workforce%20Information).

(1) Information for prior years not available.

STATE OF MARYLAND

State Employees by Function/Program

June 30, 2004

State Employees:	
Governmental activities:	
General government	6,146
Health and mental hygiene	11,815
Education	2,180
Human resources	6,852
Public safety	15,356
Transportation	6,799
Judicial	5,387
Labor, licensing and regulation	1,691
Natural resources and recreation	2,076
Housing and community development	254
Environment	907
Agriculture	516
Business and economic development	303
Total governmental activities employees	60,282
Business-type activities:	
Economic development - insurance programs	205
Maryland State Lottery	177
Maryland Transportation Authority	1,562
State Use Industries	159
Total business-type activities employees	2,103
Total primary government employees	62,385
Component units:	
Higher Education	34,397
Stadium Authority	97
Other component units	41
Total component unit employees	34,535

Source: Central Payroll Bureau, State Comptroller's Office

Information for prior years not available.

STATE OF MARYLAND

Schedule of Miscellaneous Statistics

June 30, 2004

Date of Ratification	1788
Form of Government	Legislative - Executive - Judicial
Miles of State Highways.	5,235
Land Area	9,844 square miles
State Police Protection:	
Number of Stations	26
Number of State Police	1,596
Higher Education (Universities, Colleges and Community Colleges):	
Number of Campuses in State	29
Number of Educators	8,432
Number of Students	246,794
Recreation:	
Number of State Parks and Forests	61
Area of State Parks	97,362 acres
Area of State Forests	135,951 acres

Sources: State Comptroller's Office, General Accounting Division, Central Payroll Bureau,
Maryland Manual @ www.mdarchives.state.md.us/msa/mdmanual, and the
Department of Natural Resources.



FINANCIAL SCHEDULES REQUIRED BY LAW

These schedules are required to be submitted by the Comptroller by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland.

STATE OF MARYLAND

Schedule of Estimated and Actual Revenues By Source, Budgetary Basis, for the Year Ended June 30, 2004
(Expressed in Thousands)

Annual Budgeted Funds											
	General Fund			Special Fund		Federal Fund		Higher Education Funds		Capital Projects Fund	
	Estimated Revenues	Actual Revenues		Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Current		Actual Revenues	Total Actual Revenues
								Unrestricted Revenues	Restricted Revenues		
Taxes:											
Property tax		\$ 613	\$ 550,366	\$ 648,958						\$ 9,358	\$ 658,929
Franchise and corporation tax	\$ 138,583	137,393									137,393
Death taxes	132,777	153,774									153,774
Admission and amusement tax			1,440	1,473							1,473
Alcoholic beverages tax	26,439	26,863									26,863
Motor vehicle fuel taxes	12,773	13,026			722,328	733,018					746,044
Income taxes	5,284,329	5,417,671			101,979	108,232					5,525,903
Sales and use taxes	2,865,389	2,921,794			23,800	23,266					2,945,060
Tobacco taxes	269,096	272,062			11	3					272,065
Motor vehicle titling taxes					704,000	719,757					719,757
Insurance company taxes	246,684	260,046			30,000	19,043					279,089
Horse racing taxes					6,750	3,028					3,028
Shellfish taxes						40					40
Boxing, wrestling or sparring taxes		359		15							359
Boat titling tax				25,450	31,560						31,560
Energy generation tax				40,465	41,152						41,152
Emergency telephone system tax				54,879	51,249						51,249
Total taxes	8,976,070	9,203,601	2,261,483	2,380,779						9,358	11,593,738
Other:											
Licenses and permits	45,816	41,240		331,404	370,430						411,670
Fees for services	129,949	131,020		557,495	538,586						669,606
Fines and costs	118,686	141,150		191,703	160,872						302,022
Sales to the public	4,681	8,986		60,907	74,272						83,258
Commissions and royalties	1,447	10		72,228	58,410						58,420
Rentals	1,411	1,468		64,614	64,098					149	65,566
Interest on investments	27,101	33,065		8,534	10,396						43,610
Interest on loan repayments				3,629	5,482						5,482
Miscellaneous	105,215	101,855		63,870	56,432						158,287
Colleges and universities											2,418,691
Federal reimbursements and grants											5,582,141
Other reimbursements	132,230	141,474		251,901	431,953			\$1,628,705	\$1,648,235	\$891,546	\$770,456
Bond issues:											
State - general purpose											
Consolidated transportation bonds					277						
Premiums				370,000	320,000					500,000	500,277
State reimbursements	422,845	407,183		100,125	102,696					50,892	320,000
Appropriated from general fund										16,559	77,095
Trust funds								837,538	837,538		526,438
Revolving accounts	5,000	5,523		16,457	15,208						837,538
				26,404	28,946						15,208
Total revenues	\$9,970,451	\$10,216,575	\$4,380,754	\$4,645,040	\$6,297,649	\$5,582,141	\$2,466,243	\$2,485,773	\$891,546	\$576,958	\$24,276,943

STATE OF MARYLAND

Schedule of Budget and Actual Expenditures and Encumbrances by Major Function, Budgetary Basis, For the Year Ended June 30, 2004
(Expressed in Thousands)

Expenditures and Encumbrances by Major Function*	Annual Budgeted Funds												Capital Projects Fund	Total
	General Fund		Special Fund		Federal Fund		Higher Education Funds							
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Current		Restricted Fund					
							Final Budget	Actual	Final Budget	Actual				
Payments of revenue to civil divisions of the State	\$ 136,821	\$ 136,761											\$ 136,761	
Public debt			\$ 536,819	\$ 536,819									536,819	
Legislative	59,860	59,860											59,860	
Judicial review and legal	353,527	347,235	66,117	63,854	\$ 4,097	\$ 3,875							414,964	
Executive and administrative control	120,373	118,917	165,558	130,225	217,841	202,553							451,695	
Financial and revenue administration	146,883	143,107	69,818	67,488									210,595	
Budget and management	30,137	28,701	20,341	12,318									41,019	
Retirement and pension			21,792	21,432									21,432	
General services	48,150	47,697	1,480	1,445	781	766							49,908	
Transportation and highways			2,564,824	2,405,065	853,505	703,450							3,108,515	
Natural resources and recreation	70,818	70,656	78,263	71,416	31,975	27,532							169,604	
Agriculture	27,168	26,922	33,386	30,702	8,930	6,455							64,079	
Health, hospitals and mental hygiene	2,868,584	2,865,340	301,223	288,506	2,757,391	2,712,263							5,866,109	
Human resources	550,273	550,021	99,101	98,495	1,015,959	906,912							1,555,428	
Labor, licensing and regulation	24,505	24,261	23,437	19,264	147,862	137,966							181,491	
Public safety and correctional services	781,341	764,810	124,410	115,143	11,136	9,409							889,362	
Public education	4,660,572	4,657,668	49,934	38,173	885,422	792,579	\$2,466,243	\$2,405,176	\$891,546	\$780,094			8,673,690	
Housing and community development	10,724	10,724	47,795	46,718	168,392	167,273							224,715	
Business and economic development	55,489	55,489	53,180	36,714	609	581							92,784	
Environment	38,773	38,764	63,846	58,852	67,787	59,421							157,037	
Juvenile services	170,345	170,340	418	202	16,269	15,635							186,177	
State police	135,177	134,207	59,012	55,555	109,693	98,797							288,559	
State reserve fund	10,000	10,000											10,000	
Loan accounts												\$749,654	749,654	
Reversions:														
Current year reversions	(37,180)			(22,909)		(41,903)		(296)		(734)			(77,073)	
Prior year reversions		(11,231)												
Total expenditures and encumbrances	\$10,262,340	\$10,250,249	\$4,380,754	\$4,075,477	\$6,297,649	\$5,803,564	\$2,466,243	\$2,404,880	\$891,546	\$779,360	\$749,654	\$24,063,184		

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Changes in Fund Equities - Budgetary Basis For the Year Ended June 30, 2004
(Expressed in Thousands)

	General Fund		Special Fund		Higher Education			Capital Projects Fund	Total
	General	State Reserve	Special	Debt Service	Federal Fund	Unrestricted Fund	Current Restricted Fund		
Fund equities, July 1, 2003	\$ 300,421	\$513,607	\$ 855,943	\$ 40,992		\$ 325,703	\$ 10,069	\$ 266,862	\$ 2,313,597
Increase :									
Revenues	10,200,169	16,406	4,171,164	473,876	\$5,582,141	2,485,773	770,456	576,958	24,276,943
Decrease :									
Appropriations	10,299,520		3,843,935	536,819	6,297,649	2,466,243	891,546		
Less: Current year reversions	(38,040)		(282,368)		(452,182)	(61,067)	(111,452)		
Prior year reversions	(11,231)		(22,909)		(41,903)	(296)	(734)		
Expenditures and encumbrances*	10,250,249		3,538,658	536,819	5,803,564	2,404,880	779,360	749,654	24,063,184
Changes to encumbrances during fiscal year 2004	28,620		71,440		(98,596)	(4,315)	45		(2,806)
Expenditures	10,278,869		3,610,098	536,819	5,704,968	2,400,565	779,405	749,654	24,060,378
Transfers in (out)	380,086	(16,987)	(320,005)	88,093	122,827	(3,776)	(134)	(111,259)	138,845
Fund equities, June 30, 2004	\$ 601,807	\$513,026	\$1,097,004	\$ 66,142	-	\$ 407,135	\$ 986	\$ (17,093)	\$ 2,669,007
Fund Balance:									
Reserved:									
Encumbrances.	\$ 149,148		\$ 385,338		\$ 324,793	\$ 7,237	\$ 102	\$ 438,758	\$ 1,305,376
State reserve fund		\$513,026							513,026
Loans and notes receivable			8,487	\$ 11,526					20,013
Shore erosion loan program			8,111						8,111
Unreserved:									
Designated for:									
General long-term debt service				54,616					54,616
2005 operations	142,973								142,973
Undesignated surplus (deficit)	309,686	-	695,068		(324,793)	399,898	884	(455,851)	624,892
Total	\$ 601,807	\$513,026	\$1,097,004	\$ 66,142	-	\$ 407,135	\$ 986	\$ (17,093)	\$ 2,669,007

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General, Special, and Federal" included in the RSI Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

**Schedule of Funds Transferred to Political Subdivisions
For the Year Ended June 30, 2004 (1)**
(Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources				Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants		Debt Service	Total	Federal Funds	State Administered			
		Appropriations	and				Local Revenue			
Allegany	\$ 3,156	\$ 83,631	\$ 4,463	\$ 91,250	\$ 16,838	\$ 22,042	\$ 130,130	\$ 2,600,888	\$5.00	
Anne Arundel	19,228	308,553	15,243	343,024	42,089	343,429	728,542	41,297,966	1.76	
Baltimore County	27,790	509,685	29,222	566,697	79,655	454,811	1,101,163	47,861,367	2.30	
Calvert	3,651	79,670	6,794	90,115	7,862	58,078	156,055	6,819,523	2.29	
Caroline	2,548	38,557	1,009	42,114	7,266	10,978	60,358	1,451,362	4.16	
Carroll	7,428	129,874	3,687	140,989	13,545	89,009	243,543	10,941,349	2.23	
Cecil	3,381	86,120	1,587	91,088	12,652	43,854	147,594	5,620,734	2.63	
Charles	4,890	128,157	21,126	154,173	16,783	70,015	240,971	9,310,426	2.59	
Dorchester	2,735	34,026	2,013	38,774	8,896	11,316	58,986	1,817,529	3.25	
Frederick	8,708	169,116	10,144	187,968	18,148	122,354	328,470	14,951,629	2.20	
Garrett	3,497	35,930	1,591	41,018	7,692	12,673	61,383	2,314,682	2.65	
Harford	8,985	189,492	1,981	200,458	22,721	147,921	371,100	14,428,277	2.57	
Howard	10,182	179,291	21,694	211,167	15,895	220,912	447,974	24,297,361	1.84	
Kent	1,515	14,991	391	16,897	4,781	8,989	30,667	1,555,850	1.97	
Montgomery	24,705	464,673	40,168	529,546	76,110	803,033	1,408,689	95,287,116	1.48	
Prince George's	17,063	782,564	27,580	827,207	118,863	400,007	1,346,077	45,736,798	2.94	
Queen Anne's	3,360	36,092	5,908	45,360	4,956	30,820	81,136	4,032,277	2.01	
St. Mary's	4,702	76,753	9,707	91,162	12,415	56,149	159,726	5,830,982	2.74	
Somerset	1,887	28,932	108	30,927	8,614	6,823	46,364	799,003	5.80	
Talbot	2,151	17,671		19,822	5,536	20,142	45,500	4,517,967	1.01	
Washington	5,181	112,574	3,939	121,694	21,074	60,721	203,489	7,673,262	2.65	
Wicomico	4,587	92,181	503	97,271	18,617	34,307	150,195	4,255,600	3.53	
Worcester	3,322	26,140	729	30,191	10,146	22,828	63,165	8,385,863	0.75	
Baltimore City	173,716	1,013,486	12,629	1,199,831	259,657	204,379	1,663,867	20,218,975	8.23	
Total	\$348,368	\$4,638,159	\$222,216	\$5,208,743	\$810,811	\$3,255,590	\$9,275,144	\$382,006,786		

(1) In addition to the amounts shown for counties and Baltimore City, \$126,273,000 was distributed to municipalities within the counties.

(2) Source: Sixtieth Report of the Department of Assessments and Taxation, dated January 2004. Assessed value of property is 100%.

STATE OF MARYLAND

**Schedule of Taxes Receivable from
Collectors of State Property Taxes**

June 30, 2004

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany	\$ 155	\$ 45	\$ 200
Anne Arundel	797	33	830
Baltimore County	273	69	342
Calvert	273	24	297
Caroline	13	2	15
Carroll	69	9	78
Cecil	190	209	399
Charles	170	(30)	140
Dorchester	168	35	203
Frederick	79	(89)	(10)
Garrett	198	2	200
Harford	115	25	140
Howard	81	1,138	1,219
Kent	83	3	86
Montgomery	225	(1,928)	(1,703)
Prince George's	573	149	722
Queen Anne's	16	5	21
St. Mary's	235	2	237
Somerset	112	(3)	109
Talbot	94		94
Washington	(199)	(24)	(223)
Wicomico	56	27	83
Worcester	278	2	280
Baltimore City	1,743	1,205	2,948
Total	\$5,797	\$ 910	\$ 6,707

STATE OF MARYLAND

Schedule of Estimated Revenues - Budgetary Basis
For the Year Ending June 30, 2005
(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Income taxes	\$ 5,735,483	\$ 121,445				\$ 5,856,928
Retail sales and use tax and licenses	2,971,089	24,956				2,996,045
Motor vehicle fuel taxes and licenses	13,109	754,150				767,259
Motor vehicle tax and licenses	10,729	923,900				934,629
Property taxes		523,662 (1)				523,662
Insurance company taxes, licenses and fees.	254,085					254,085
Franchise and corporation taxes	201,684					201,684
State tobacco tax and licenses	264,256					264,256
Alcoholic beverages taxes and licenses	27,929					27,929
Death taxes.	139,824					139,824
Miscellaneous taxes, fees and other revenues	112,039	47,494 (2)				159,533
Budgeted tobacco settlement recoveries		117,869				117,869
Horse racing taxes and licenses	290	4,083				4,373
District courts fines and costs	79,367					79,367
Interest on investments	48,100	2,000				50,100
Hospital patient recoveries	77,127					77,127
Legislative	300					300
Judicial review and legal	65,293	65,603	\$ 4,244			135,140
Executive and administrative control	7,439	140,221	103,577			251,237
Financial and revenue administration	7,925	16,660				24,585
Budget and management	1,269	15,690				16,959
State lottery agency	441,410	51,817				493,227
Retirement and pension		17,095				17,095
General services	945	1,504	801			3,250
Transportation and highways		609,580	735,817			1,345,397
Natural resources and recreation	582	75,862	25,823			102,267
Agriculture	121	18,655	7,158			25,934
Health, hospitals and mental hygiene.	21,892	133,316	2,630,218			2,785,426
Human resources.	2,173	65,532	926,086			993,791
Labor, licensing and regulation	13,046	17,369	135,695			166,110
Public safety and correctional services	7,677	121,406	7,267			136,350
Public education	32,021	43,462	855,162	\$2,544,392	\$899,774	4,374,811
Housing and community development.	764	49,202	180,276			230,242
Business and economic development.		38,522	558			39,080
Environment	513	61,046	61,429			122,988
Juvenile justice	300	248	15,358			15,906
State police	3,100	58,964				62,064
Total estimated revenues	\$10,541,881	\$4,121,313	\$5,689,469	\$2,544,392	\$899,774	\$23,796,829 (3)

(1) Includes \$512,865,000 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$47,494,000 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported at July 1, 2004, and do not reflect revisions, if any, subsequent to that date.

STATE OF MARYLAND

**Schedule of General, Special, Federal, Current Unrestricted
and Current Restricted Fund Appropriations - Budgetary Basis
For the Year Ending June 30, 2005
(Expressed in Thousands)**

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State	\$ 128,490					\$ 128,490
Public debt		\$ 560,360 (1)				560,360
Legislative	60,884					60,884
Judicial review and legal	360,192	65,773	\$ 4,244			430,209
Executive and administrative control	137,387	140,222	103,577			381,186
Financial and revenue administration	157,887	68,477				226,364
Budget and management	87,277	15,690				102,967
Retirement and pension		17,095				17,095
General services	50,940	1,504	801			53,245
Transportation and highways		2,436,029	735,817			3,171,846
Natural resources and recreation	67,746	85,675	25,823			179,244
Agriculture	25,369	25,768	7,158			58,295
Health, hospitals and mental hygiene	3,128,121	242,362	2,630,219			6,000,702
Human resources	563,169	65,532	926,086			1,554,787
Labor, licensing and regulation	18,219	19,976	135,695			173,890
Public safety and correctional services	794,267	121,406	7,267			922,940
Public education	5,015,188	46,462	855,161	\$2,544,392	\$899,774	9,360,977
Housing and community development	10,949	50,202	180,276			241,427
Business and economic development	62,869	38,522	558			101,949
Environment	36,857	61,046	61,429			159,332
Juvenile justice	172,004	248	15,358			187,610
State police	210,938	58,964				269,902
State reserve fund	106,653					106,653
Total appropriations	\$11,195,406	\$4,121,313	\$5,689,469	\$2,544,392	\$899,774	\$24,450,354 (2)

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported at July 1, 2004, and do not reflect revisions, if any, subsequent to that date.



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